## **MUTUAL SECURITY ACT OF 1956**

1184-1

### **HEARINGS**

BEFORE THE

# COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

THE MUTUAL SECURITY PROGRAM FOR FISCAL YEAR 1957

APRIL 13, 30, MAY 7, 8, 9, 10, 11, 14, 15, 17, 18, 21, 22, 23, 24, 25, AND 31, 1956

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<sup>&</sup>lt;sup>1</sup> Senator Barkley died on April 28, 1956. On May 18, 1956, Senator Russell B. Long was assigned to service on the committee.

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#### MUTUAL SECURITY ACT OF 1956

#### FRIDAY, APRIL 13, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS. Washington, D. C.

The committee met, pursuant to call, at 10:40 a.m., in the Foreign Relations Committee Room, United States Capitol Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Green, Fulbright, Mans-

field, Barkley, Wiley, Smith of New Jersey, and Aiken.

Also present: John B. Hollister, Director, International Cooperation Administration; R. Ammi Cutter, International Cooperation Administration; and Howard P. Jones, Deputy Assistant Secretary of State for Far Eastern Affairs.

The CHAIRMAN. Gentlemen, I think we will go ahead.

Mr. Hollister, did you wish to say something to us before we begin

this morning?

Mr. Hollister. I just wanted to say, Senator, we appreciate ever so much the opportunity you have given us, out of regular order, to have General Lemnitzer and Mr. Wood, who are here from Korea, talk to you even before the bill gets here in the ordinary course.

We are still having our hearings, as you know, before the Foreign Affairs Committee of the House. General Lemnitzer has to get back And the Korean picture is such an enormously imto his duties. portant one, so much money is spent in foreign aid in Korea, we thought it particularly important that you gentlemen have an opportunity to hear the general and Mr. Wood; and this seemed to be the opportunity and, as I say, we appreciate the chance you have given them to make this presentation.

The CHAIRMAN. We are very glad to have them, especially since several members of this committee would be out next week, Gen-

al. But we will be very glad to hear from you now. We do not have a bill before us and we do not know the specific recommendations, but we do want to hear from you and Mr. Wood with reference to the present needs and conditions in Korea.

You may proceed in your own way, and you probably will be asked questions from time to time. Would that interfere with your statement?

General Lemnitzer. Not at all, sir.

The CHAIRMAN. Thank you very much. We do appreciate the opportunity of having you with us.

# STATEMENT OF GEN. LYMAN L. LEMNITZER, COMMANDER IN CHIEF, FAR EAST COMMAND

General Lemnitzer. It is a pleasure for me to be here and discuss with you the situation in the area which happens to be under my command at the moment, and insofar as it relates to the mutual security

program for fiscal year 1957.

I thought that it probably would be most helpful to the committee if I presented a quick rundown on the military situation which exists in the Far East Command, and I believe that that will be helpful to the committee as a background against which to view the program when it is submitted in further detail.

#### BACKGROUND OF WITNESS

I wear three hats in my job. I am the commander in chief of the Far East Command. Now, the Far East Command is a unified United States command. I have the three components of American forces under my command; that is, the Army, which is under the command of General White; the Navy, under the command of Admiral Callahan; and the Air Force, under the command of General Kuter.

In addition, I am commander in chief of the United Nations Com-

mand.

The activities of the United Nations Command are directed primarily at Korea, but many of my forces which are a part of the United Nations Command are not necessarily in Korea, but they are in the Far East or in my area of responsibility for deployment in Korea if the situation requires.

Senator Green. Excuse my interrupting. You say "not necessarily." You mean they are as a matter of fact, or they are not as

a matter of fact?

General Lemnitzer. They are not in Korea. They are actually based in Japan, Senator, and other parts of the Pacific.

My third assignment—

Senator SMITH. General, might I ask you this right there: You

succeeded to the post that General Ridgway had; is that it?

General Lemnitzer. That is right, sir, but he was relieved by General Clark; then it was General Hull; General Taylor for a very short period; and then I took over.

Senator Smith. Oh, yes. It is the same job that Ridgway had, and

MacArthur had before him?

General LEMNITZER. It is the same job; yes, sir.

My third assignment is governor of the Ryukyu Islands, Okinawa

being the largest and the most important one of those islands.

My missions in the Far East Command are related to various activities, such as the cold war, resumption of hostilities, possibly, in Korea, and, of course, as all unified commanders have their mission related to the possibility of a general war breaking out.

#### EXISTING MILITARY PICTURE IN THE FAR EAST

I thought I would now move, Mr. Chairman, into the general military picture which exists in the Far East Command at the present time, particularly with regard to enemy forces and the deployment of our United States forces there.

First I would like to outline the general area that is included in my

Admiral Stump, the commander in chief, Pacific, has the Pacific area generally south of Okinawa. His command includes Formosa, the Philippines, and the southeast Asia area.

My command ends just south of Okinawa; includes the Japanese islands up to Hokkaido, and, of course, the Republic of Korea. Those

are the three principal land areas within my command.

Senator Smith. You do not have Formosa, then?

General LEMNITZER. I do not, sir. That is under the commander in chief, Pacific, Admiral Stump, whose headquarters are located in Hawaii.

We have a considerable concentration of Communist power facing the Far East Command, the United Nations Command. We are faced by three Communists states: the Soviet Union, with its concentration of military power generally along from the Vladivostok Maritime Province area, in Sakhalin Island, and the Kurile Islands, which were taken from Japan.

North Korea and, of course, Communist China. Communist China faces both my command and that of Admiral Stump. [De-

leted.

Now, for our own forces, the United States Army has in the Far East Command now but 3 divisions; 1 located in Japan, 2 in Korea.

[Deleted.]

During the Korean war, Task Force 77, which was a major part of the 7th Fleet, operated off the Korean coast. Presently the 7th Fleet activities are primarily around the Formosan area, but it ranges all the way from the Philippines up through the entire area. [Deleted.]

#### UNITED STATES FORCES IN KOREA

Senator Barkley. Have all the other nations that participated with us in the Korean war withdrawn their troops?

General LEMNITZER. Not all of them, sir. I will mention that in a

moment when we get into Korea.

Senator Barkley. How many have we in Korea now, compared to the number we had at the peak of our forces, 1953?

General Lemnitzer. When you say "we," do you mean America? Senator Barkley. United States.

General LEMNITZER. We had eight divisions, I believe, in Korea. We have but two now. [Deleted.]

#### LOGISTICS BASE IN JAPAN

Now I would like to just mention and place some emphasis on that logistics base in Japan, because of the important role it plays in our

entire military effort in the Pacific.

These depots are magnificent depots. They are as good as any you will find anywhere in the world. They are located primarily around the Takyo-Yokohama area, with the exception of a few down in the Kobe area. [Deleted.]

#### SITUATION IN KOREA

Now a word about Korea.

Korea is a very important element of my command or area of my command, and there is a great concentration of my forces, particularly Army forces, there.

This is where my responsibilities are carried out under my title as

commander in chief of the United Nations Command.

I would like to point out that the American forces in here are under my command, and the Korean forces, Army, Navy, and Air Force, are under my operational control. Technically they are not a part of the United Nations Command.

There are 16 nations which are represented in the United Nations Command. But the Korean Army, Navy, and Air Force are under my operational control, so in my capacity as commander in chief, I command all the forces that are shown on this map south of the line of demarcation here.

In Korea, we have a state of suspended war. We have had the armistice; that is now going on 3 years old. It will be 3 years July 27, 1956. The armistice was signed in 1953.

These forces are separated by a 4-kilometer zone; roughly speaking, there are about three-quarters of a million Communist troops north

of this line. Accordingly, this line has to be manned.

And the forces, both United States, which are located on the western flank, and the Korean forces, Republic of Korea forces, which occupy the remainder of the line, are actually on their battle positions and in a complete state of readiness all the time.

We have incidents from time to time in this line of demarcation or

along this demilitarized zone.

For instance, I have here some messages of some patrol probes, which have come in for some reasons unknown to us, within the last week. We have protested those probing actions at the Military Armistice Commission, to the Military Armistice Commission which is set up and functions at Panmunjom.

The Korean forces, divisions of which occupy the major part of this line, are the forces which require the support, primarily, under

the mutual security program.

Now, during the war and for 2 years after, all of the Korean forces drew their supplies from the United States Army, Navy, and Air Force depots, and it was only about a year ago that their support was moved over into the mutual security program.

#### SIZE OF THE REPUBLIC OF KOREA ARMY

I emphasize this point, because this large Republic of Korea Army relies entirely upon the mutual security program to provide its supply and support.

Senator WILEY. How big is it?

General Lemnitzer. It is 20 divisions, sir; 20 army divisions and 1 marine division. [Deleted.] It is a good army, a fine army. It was born in combat. It is well trained, and very well led. It was built up with American equipment and under American instruction and American guidance.

The divisions are not exactly like an American division. They have been or they were developed by General Taylor when he commanded the Eighth Army, and they are somewhat smaller than an American division, but they have been organized and equipped for the type of fighting that you would anticipate in Korea.  $\overline{\mathbf{Deleted.}}$ 

Senator Wiley. Have they any air force?

General LEMNITZER. They have only one group. Their air support would have to come from the Far East Air Force, largely, except for that one group.

#### KOREA PORTS OF ENTRY

I have shown on this map [pointing] the five ports of entry through which all supplies moving into Korea, or forces or equipment leaving Korea, must flow, as a result of the military armistice. These are the five ports of entry originally set up.

The five in the north are shown here in red.

Last September, as a result of a mutual agreement which was worked out at Panmunjom, we have eliminated two of these ports on each Kangnung is one. So we have but three ports of entry—the ports of Pusan, Inchon, and Kunsan.

We also eliminated two in the north—Chongjin and Hungnam. So all the supplies are supposed to come in to these three ports of

entry.

Senator Wiley. What do you mean by your statement that we have eliminated two in the north?

General Lemnitzer. By mutual agreement, 2 were eliminated in

the south and 2 in the north. Senator Fulbright. What is the significance of that? Is that an advantage? Why did you do it?

General LEMNITZER. May I just take this one off the record, please. Discussion off the record.

#### KOREAN MILITARY FORCES

General Lemnitzer. One word about the forces. In the west we have the First United States Corps, with two American divisions in that corps. This is one of the principal invasion routes, and it was the one which has been used for many, many years.

The remainder of the front, about 140 miles, is manned by our

Korean divisions. [Deleted.]

#### UNITED NATIONS COMMAND AS A COLLECTIVE SECURITY ARRANGEMENT

Now, as the commander in chief of the United Nations Command, I am very anxious to maintain the character of the United Nations Command. By that I mean, to keep the representation of this command, because I think it is probably the best deterrent that we have to a resumption of hostilities in Korea. [Deleted.]

#### KOREAN POPULATION

Senator Wiley. What would be the Korean population in the north?

Mr. Wood. About 7 or 8 million in the north.

Senator WILEY. What?

General Lemnitzer. About 7 or 8 million, Mr. Wood feels. I thought it was possibly a little lower than that. There has been a large mass movement, during hostilities, into the south.

One of the real problems in the south is the large number of refugees that moved down into the south as a result of the Korean

war.

Senator WILEY. What is the population in the south?

Mr. Wood. About 22½ million.

General Lemnitzer. Twenty-two and a half million.

Mr. Wood. It is higher in the north prior to the war, considerably higher.

#### KOREAN RECONSTRUCTION

Senator Barkley. When I was in Korea early in December of 1951, there was evidence of great destruction, and the city of Seoul was practically demolished.

General LEMNITZER. That is right, sir.

Senator Barkley. And other places that I had the opportunity of seeing were likewise demolished.

What has been done up to now in the way of reconstruction or

rehabilitation?

General Lemnitzer. There has been a great transition since 1951, Senator Barkley. I think the construction program has moved ahead, both in the things we have rebuilt, and there has been a great amount of housing rebuilt by the Koreans themselves.

This is in Mr. Wood's area of responsibility, Senator, but I think in general the housing, the rehabilitation of facilities, housing particularly, has come along a very long way in those intervening 5 years.

You may want to say something on that.

Mr. Wood. If the Senator is interested in what we have done, we have supplied adequate building materials, and then have assisted in building certain major installations, like powerplants, things of that sort.

The Koreans themselves have gone to work with the materials and built, rebuilt their own housing. The streets of Seoul have fewer potholes in them as a result of the moving in of an asphalt plant and the getting of a Bureau of Public Roads man from Texas to come and show them how to fix up their roads and use the asphalt properly.

All through the economy, Senator, that sort of thing has been going on, with us supplying chiefly the materials that have to be imported, and the know-how and the training, and the Koreans sup-

plying part of the know-how and most of the work.

You would be amazed to see the difference now compared with what you saw when you were there before.

#### KOREAN MILITARY FORCES

General Lemnitzer. Now, insofar as the Korean forces [deleted] are concerned, their own resources do not provide the wherewithal to even pay and support these troops. We provide the hardware under the program, we provide the replacement material, the details of which you will see when you consider the program.

But in addition, I would like to say that the economic program in Korea is also very closely fitted into the military program. In other words, the funds that are generated, counterpart funds that are generated as a result of the economic program, are required to support

their military budget.

This is a tremendous effort for a country of this size, a military effort, and it is only through the military and economic aid program that they are able to support forces of this size.

Insofar as the programs are concerned, Mr. Chairman, that covers about all of the Far East Command area that I intended to cover in

my presentation here this morning.

I have not mentioned Okinawa, because it is not a part of this particular program. I indicated that I am governor of the Ryukyu Islands, but I would just like to tell you that the base which is being developed on Okinawa is one of the finest bases, probably, we have ever built anywhere in the world.

#### UNITED NATIONS TROOPS IN KOREA

Senator Barkley. General, before you get to that, may I ask you one other question about Korea.

General Lemnitzer. Yes, sir.

Senator BARKLEY. Are the nations which still have troops in Korea, among the 16 who were associated with us and still have troops in there, are they supporting their own troops altogether, or are we helping them?

General Lemnitzer. Some are. It is both, Senator Barkley. There is a commonwealth brigade there which is supported by the Common-

wealth nations.

The Turkish brigade is there, and we have provided assistance for

them. Senator BARKLEY. I made a speech to those Turkish soldiers, and they applauded like they understood it, but they looked to me like

great fighters and fine men.

General Lemnitzer. I am sure that they proved themselves to be exceptionally fine fighters during the Korean war, and I am very glad that Turkey is maintaining that brigade out there as part of the United Nations Command. [Deleted.]

The other detachments you may be interested in. We have a company from Thailand; also from Ethiopia; and we also have token detachments from France and some of the other countries that fought there during the war, Greece, and so on. But a good many of them have been withdrawn, and I resist as well as I can any further withdrawals, for the reason that I indicated.

I believe that the deterrent effect of the United Nations Command there is extremely important, and I think the money spent there probably produces a greater deterrent effect than possibly anywhere else.

Senator BARKLEY. General Ridgway arranged for me to make a

little talk to each one of those divisions and brigades.

Discussion off the record.

#### POSSIBILITY OF KOREAN DIVISIONS IN RUSSIAN ARMY

Senator Mansfield. General, is it not true that before the outbreak of the Korean war in 1950, the Soviet Far Eastern Army had at least

one, and possibly more, Korean divisions?

General Lemnitzer. I have heard that reported, Senator. I don't think there is clear-cut evidence that they were completely Korean I believe that the top leadership, and so on, was Russian, and I think maybe a lot of the ranks were Korean.

Senator Mansfield. Well, I would agree with that, but what I was getting at was this: Would it not be a reasonable assumption that with the outbreak of the Korean war, there was a transfer of this kind of

division down into Korea under Korean leadership?

General Lemnitzer. It could be. They are very accessible to moving in.

(Discussion off the record.)

#### SITUATION IN OKINAWA

The CHAIRMAN. Any further questions of the general?

Anything else, General, that you wish to say? General LEMNITZER. That is all I had, sir.

Senator Fulbright. Mr. Chairman, he was going to tell us about

Okinawa, and he was diverted.

General LEMNITZER. I was just going to focus attention on Okinawa on this large base we have out there, which is one of the real bastions in this island chain.

The Ryukyu Islands are this group of islands.

But we have a plant here, probably one of the finest airbases in the

world, and several satellite bases. [Deleted.]

Senator BARKLEY. Yesterday the Subcommittee on Disarmament of this committee heard testimony advocating that we stop building any more large nuclear bombs, and multiply the smaller ones. Would you care to say anything about that?

(Discussion off the record.)

The CHAIRMAN. General, we thank you very much for your appearance here.

Senator Barkley. It was very interesting.

The CHARMAN. Mr. Wood, it is now 12 o'clock. Will you be here

later during the consideration on the Mutual Security Act?

Mr. Wood. I would think not, Senator, unless the committee and Mr. Hollister wanted to cause me to remain. I would do, of course, whatever seemed to be required.

The CHAIRMAN. We will be glad to hear you now, because we can

take until almost 1 o'clock, if you wish to.

# STATEMENT OF C. TYLER WOOD, ECONOMIC COORDINATOR FOR KOREA

Mr. Wood. I think, unless the committee wishes to go into very great detail on some of these economic questions, that it might be possible to give a fair picture of the economic problem and its setting in relation to the military, from the standpoint of the way we see it there.

The Chairman. Yes, sir. We are always glad to hear from you.

The Charman. Yes, sir. We are always glad to hear from you. Mr. Wood. Thank you, sir. I am always glad to appear before the

committee. I feel very much at home.

The Charman. General Lemnitzer, you may have an appointment

that you may have to keep.

General LEMNITZER. Thank you. I will, if you agree. I would like to go to this Joint Chiefs of Staff meeting in just a few minutes.

The CHAIRMAN. Yes, sir. You may feel at liberty to go whenever you wish.

#### ECONOMIC AID FOR KOREA

Senator Smith. Let me ask the general just one question. Your military program has nothing to do with our ICA deliberations, sir?

General Lemnitzer. Yes, it does.

Senator Smith. You mean so far as money is concerned?

General Lemnitzer. There is no economic program for Japan, but there is a very large economic program for Korea, and that economic program augments and supports the military effort which is in Korea.

It is probably a unique situation that is found nowhere else in the

world.

Senator Smith. I was aware of the relationship of those, but I thought your military aid came from the armed services budget, and not from this particular one; or do you have to take care of that, Mr. Hollister?

Mr. HOLLISTER. It depends. They are all tied together. The funds which the American forces themselves are supporting, of course, come from—do not come from the——

General LEMNITZER. They come from United States Army, Navy,

and Air Force budgets.

Mr. Hollister (continuing). Mutual security. But if they involve

the Korean Army——

General Lemnitzer. The Korean Army comes from the mutual security program.

Senator Smith. Our program.

General Lemnitzer. Yes, sir. That comes from our program.

#### BACKGROUND OF WITNESS

Mr. Wood. Mr. Chairman, as I think the committee knows, my job is that of being what is called the Economic Coordinator in Korea. General Lemnitzer wears 3 hats; I wear 2.

I represent Mr. Hollister as the head of the foreign-aid agency, and I also am General Lemnitzer's representative in Korea for all

matters dealing with economic questions.

#### RECONSTRUCTION IN KOREA

The coordinating aspect of this job was very much more important  $2\frac{1}{2}$  years or so ago when I first went there, than it is today. At that time the armistice had just been signed, the fighting had stopped, and there was a United Nations organization operating in Korea on postwar reconstruction, called the United Nations Korean Reconstruction Agency, or UNKRA for short.

Our military—or the United Nations military—had in there, also, the traditional civil-assistance military unit that was responsible, during and immediately following the war, for prevention of disease and unrest behind the lines which would have endangered the security of the troops.

That agency was bringing in aid goods, financed with Army funds, chiefly building materials and food and medicines, and things of that

sort.

It was decided at that time, as the committee may remember, that there would be a major effort in addition to that, financed by the United States, to help rehabilitate war-devastated Korea, and it was started off with a \$200 million appropriation, which was given to the then FOA, now the International Cooperation Administration, to administer.

But it was thought necessary to have some one authority bringing all these together, so that they didn't fall over each other and conflict and duplicate the efforts of each other any more than was preventable. There was some of that, obviously.

Well, that was the job given me under the authority of the ICA on the one hand, and the commander in chief of the United Nations

Command on the other.

Since that time, and some of the committee have been out there and have been worried about the problem of the complexity of the organization, as we all have. I am glad to report that it has been possible to simplify the operation very much.

The Civil Assistance Command, which did a magnificent job and helped until we could get more adequate staff out there, in the reconstruction work as well as in the relief work, has now been phased out.

General Lemnitzer is still making available to my offce certain military technicians who cannot be replaced because we just can't hire some of the people we need in connection with this program.

I am trying as rapidly as possible to reduce that number.

We still get our logistics support from the Army.

The United Nations organization is still there, but it is getting no additional funds, so it is phasing out, and gradually we are developing a more cohesive, more coherent organization to deal with this problem.

It is amazing though, how well this thing has worked. I think General Lemnitzer will agree that in spite of the fact it looks unworkable on paper, it has in fact worked, and worked reasonably well, in bringing about our approach to our objectives in Korea.

#### IMPORTANCE OF KOREA

Korea is a small peninsula, as anyone can see. Our own assessment of its importance, I think is brought home to me when I look at the amounts of aid that have been made available in past years, and also the amount of aid that is being requested this year. [Deleted.]

The problem that we have there is very easily stated and very difficult to solve. The problem is that it is apparently regarded as desirable and essential and important, from our standpoint, to have this military force which General Lemnitzer commands and has been talking about, in a country which is so poor that it cannot possibly support that military force, even after we have given them substantial amounts of direct military aid.

#### KOREAN ECONOMY

It is such a poor country that its gross national product, for example, is somewhere near \$80 per capita; and ours is \$2,300, or thereabouts.

By all standards of comparison, it is an extremely poor country. has no coal that is much good; it has poor quality anthracite coal which needs special equipment to burn, and then it doesn't burn very well.

It has no petroleum; it has no very substantial forests. The forests were cut over during the war, so there is a severe shortage of wood. It has some metals; it has some fishing resources; it has some magnificent rice-growing fields. But it is a poor country.

Its gross national product is estimated at about \$1.8 billion in terms of our money; and the cost of this army and air force and navy, the armed forces that this poor country is being asked and wishes to support, comes to well over a third of that.

Senator George may remember when I was here the last time, he asked me half seriously and half facetiously:

Have you come here, Mr. Wood, to tell us that we can now soon give up the support of this country, and how soon that may be?

And my reply was a very simple one:

As soon as it is decided that we don't think it is in our interests to have an effective military force of the size and competence of the Korean armed forces.

The economic support which the United States is giving comes to and has come to about \$300 million a year, the defense support, socalled.

Without that, the whole situation would have collapsed. There is just no question about that. From the standpoint of morale, from the standpoint of ability to pay for food for troops, from the standpoint of anything you wish to think of, this has been the marginal amount which has made it possible for this poor country to carry on the job that it is now doing, contributing to the defense of the free world.

#### MILITARY AID TO KOREA

Senator Fulbright. Is that only economic? What has the military

Mr. Wood. The military has come to between \$400 and \$500 million a year, just on the maintenance side of it.

Senator Fulbright. Does that mean a total, then, of \$700 or \$800

million a year?

Mr. Wood. Yes, Senator Fulbright. Our aid has been running \$700 to \$800 million a year in military and economic aid; not, however. including the cost of our own troops and their equipment there, and not including the cost of the initial equipment that we have put in there.

Senator Fulbright. Can you give an estimate of the total cost, then,

per year?

Mr. Wood. I have made a very rough estimate, which is just my own, and I have said that we are investing, so far as I can figure, and have been for the last 2 or 3 years, somewhat over \$1 billion a year in the Republic of Korea. This includes our economic aid, our support to the ROK Army, and the cost of our own troops which are stationed there.

Senator Green. Our own troops would have had to be supported

somewhere—

Mr. Wood. Exactly.

Senator Green. Even if not there, so is it fair to include that?

Mr. Wood. The question was not raised during his testimony, but I have heard General Lemnitzer say that his estimate is that it would cost us several times as much money to support an American soldier over there, as it cost us in foreign aid per Korean soldier. And it is a good fighting force.

Well, this poor little land has been through hell on the financial

and economic side.

#### KOREAN INFLATION

Let me just give you a few figures which I think are quite impressive. Taking the wholesale price index at Seoul of just a little over 10 years ago, prices are over 1,200 times higher today than they were in December 1945; 1,200 times—not 12 times, not 120 times—but 1,200 times.

Think of that kind of inflation going on in the country.

We worry, and properly so, about a 10-percent increase in prices. This is 1,200 times in a little over 10 years.

From 1947 on, the multiplication has been 140 times, even from 1947. Since 1953, when I went there, prices have more than doubled. I am not indicating or implying there is any connection between the two, but in any event, that is the kind of economic situation we have been faced with.

It has arisen from the fact that you had this tremendous destruction of the war. I said, Senator Barkley, a while ago, when you asked General Lemnitzer about the reconstruction, that it has come along. It has come along by comparative standards. If you went out there, however, while you would say, "This is wonderful compared to what I did see," you would say, "It is awful compared to what I am used to or

what anybody else is used to."

They build their houses in the most flimsy way. There are a lot of potholes in the streets. There are still bombed-out factories that you can see. And we have not yet—this is the point I want particularly to make to the committee—we have not yet succeeded in bringing this serious problem of inflation, which arises from the tremendous burden of the army on the one hand, and the destruction of the economy on the other, and the lack of resources on the other; we have not brought that problem under control yet.

We have been making progress, and I see the possibility now for

the first time, really, of bringing it under control.

It is a very interesting fact that, while prices have been rising rapidly, with occasional steady periods, all through the last 10 years, we have had a really good, steady period since last July. Prices went up quite rapidly in September and October, and then came back; and they are only slightly higher today than they were at the end of the

last fiscal year.

If we can hold this gain, and it is going to require adequate economic aid—which is why I feel so strongly about wanting to talk to the committee about this—if we can hold this particular gain and prevent the further increase in prices which would come if we were not able to support or help support this country as we have in the past, then we can look forward to a period in which the forces of private enterprise, which the Government is trying to stimulate, will begin to take hold, as they did in some of the very poor countries of Europe right after the war.

#### PRIVATE ENTERPRISE IN KOREA

Senator Aiken. Is most of the economy of South Korea private economy?

Mr. Wood. No. Most of it is not, but as a matter of fact, there has

been a very interesting development since I went there.

You know, the Japanese owned most of the business establishments and a good part of the real estate in Korea prior to the war. When our Army went in there after the war, our military government vested these properties in itself; and in 1948, it turned them over to the Korean Government. And there were something like 2,700 business properties, large and small, many of them large, which were turned over to the Korean Government.

They consisted of textile plants and houses and buildings, and coal

companies, and railroads, and all sorts of things.

Senator Smith. That was after the Japanese war, not the Korean war?

Mr. Woop. That is right. In 1948 these were turned over.

Senator SMITH. Yes.

Mr. Wood. I have been watching this very carefully as an indication or as something I could use as a guide to how truly the Korean Government was devoted to the cause of private enterprise, and I found out that as of March 1 of this year, taking the numbers of business enterprises, 87 percent of those vested properties were now in private hands, and over 60 percent of the real estate is in private hands. In the case of the biggest industry of the country, the textile industry, every one of the textile plants is now in private hands. So there has been some real progress.

Two-thirds of the coal production of the country is owned by the Government, the railroads, and the powerplants are essentially Government owned. So in answer to your question, I say that a large part is still Government owned, but they are moving in the right

direction, Senator Aiken.

(Discussion off the record.)

Mr. Wood. The total supply of money, arising chiefly out of the Government deficit, has continued to increase. It was 50 percent higher at the end of this calendar year, last December, than it was

at the end of the fiscal year, in July; and that has been the main cause,

the source of the inflation.

So that the inflationary pressure is still there. We have not definitely and finally got it under control. But we have the possibility of doing so now. [Deleted.]

#### KOREAN ECONOMY

A great portion of the total revenue of the Korean Government comes from the sale of goods, financed by foreign-aid money, to the people of Korea. That is one important way for the Korean Government to collect money. They cover half of the military budget that they have taken on in local currency, with the proceeds of the sale of our aid goods. Unless these goods—

Senator Smith. We do not get counterpart there?

Mr. Wood. This is counterpart.

[Deleted.]

Mr. Wood. We are far from having won the battle, and we need, I believe we need at least all the money that has been asked for, to really win the battle this year against the inflation which has plagued this country so terribly.

#### JAPANESE-KOREAN RELATIONS

Senator Barkley. I might have asked this question when you were talking about the relations between the Koreans and the Japanese, but I suppose that situation dates back to the conquest of Korea by Japan.

Mr. Wood. Yes, it does.

Senator Barkley. It did not grow out of anything which happened during the war itself?

Mr. Wood. No. It is much deeper seated and of longer duration

than that, Senator Barkley.

The Japanese annexed Korea and took it over in the early 1900's.

Senator BARKLEY. Yes. [Deleted.]

How many Japanese left Korea after Korea became independent and established its own government, following World War II?

Mr. Wood. I don't know, Senator. I have never looked that up.

But I know that there were a great many, a very great many.

Senator BARKLEY. I have heard that there were 4 or 5 million, which created quite an economic problem in Japan. It may have been an exaggeration.

Mr. Wood. I think that is an exaggeration, but I am not absolutely

sure. [Deleted.]

Senator Barkley. If normal trade relations were resumed between Korea and Japan, would that aid the Korean economy? Would that

aid in the balance of trade, or would it be against them?

Mr. Wood. It would be very distinctly against them, so far as the balance of trade is concerned. This is one of the very great problems. Korea, being so poor, has very little to export. The balance would be against them, but, nevertheless, it would very greatly aid the Korean economy, because a great many things can be laid down more cheaply in Korea, if they can be bought in Japan than if they are bought in the United States or Europe. Even though certain items

may not be cheaper, and some of them are not actually cheaper in Japan, the saving on freight as between a trip from Japan to Korea and from Western Europe or the United States to Korea is tremendous, so it would be a considerable help.

#### KOREAN EXPORTS

In addition, Japan is about the best market for some of Korea's major possible export potentials. The two major ones are fish and seaweed on the one hand, and rice on the other, and Korean rice is very, very highly prized in Japan, and brings a premium.

The CHAIRMAN. Do they raise a surplus?

Mr. Wood. They do not raise a surplus. They raise a surplus in the sense that the Government can collect some of it and replace it by imports of cheaper bread grains. They are raising about enough calories in bread grains today to feed the population, but they have trained their people to eat some barley and some wheat, and they can buy the rice from the farmer and then export it, and get double the price for a given volume of rice that they have to pay for the same caloric value of wheat and barley. So it makes a good trade.

Senator Barkley. Could they increase their production of rice

so as to create a surplus, if they had a market for it?

Mr. Wood. The experts differ somewhat on that, Senator Barkley. The general conclusion that the best experts have reached is that they can just about increase it enough to keep pace with the increasing

population.

You see, the land is terribly cut up by mountains, as you remember, you were there, and only about 25 percent of the total land area of 38,000 square miles is actually usable for the growing of bread grains. Some of it can be used for grazing on the hills, but they terrace way up into the valley, anyway, and they can only get about 25 percent.

Now you can increase the arable land area somewhat by further irrigation work, which is being undertaken by the Government, with some help from us, but not to the point where Korea could produce a substantial overage over and above what the population really needs

to eat.

The CHAIRMAN. Is their population increasing?

Mr. Wood. Yes, sir. And, like most of our far eastern countries, it is increasing much too rapidly for anyone to figure out the arithmetic of how they are going to live on this land. It is increasing about 1.7 percent a year, which is a very high rate of increase.

#### PROGRAM FOR KOREA

Senator Smith. I had to be away for a few minutes. Did you

outline the program for Korea?

Mr. Wood. No, I didn't, Senator Smith, except in very broad terms. The request here for defense support is \$300 million, plus \$5.5 million of technical assistance, which is about what we had in this past year. And it does concern me that, even with all the money and the work that has been done in Korea, we still have not brought the inflationary situation under control. We have not had the resources to do it.

Korea could support itself without so much economic aid if it didn't have this huge military establishment. About 30 percent of the

requested dollar aid money would be used in investment projects, and about 70 percent for raw materials, and things of that sort, that are required in the economy. It is necessary to import cotton for the textile factories of Korea, and lumber for building, and steel and other essential materials. One of the huge imports that is necessary in order to maintain the production of food is fertilizer.

This year we will bring into Korea about \$57 million worth of fertilizer, almost one-sixth, or a little over one-sixth, of the total economic-

aid program.

Senator Smith. Do they distribute that or sell that for counterpart? Mr. Wood. It is intended to be sold for counterpart. After considerable controversy, they are selling the fertilizer now at the rate of 500 hwan to 1 dollar, based on its landed cost. [Deleted.]

I think the problem is solved now.

We had the same problem with oil and gasoline.

#### TEXTILE MILLS IN KOREA

The CHAIRMAN. Are they operating their textile mills now? Mr. Wood. Yes.

The CHAIRMAN. Do they have enough skilled workers?

Mr. Wood. Yes, and do very good work, Senator George. They have been using a great deal of our cotton, too, and they do some fine work with silk, too. It is the biggest industry in Korea now,

and it is coming along well.

At the moment, it is in a slight depression. The very resolute work of the Korean Government in trying to balance its budget has been in part responsible for this relative stability of prices, but it also has had the effect of reducing the volume of business activity and speculation, for the time being, and that has hit the textile industry slightly.

#### REFUGEES

Interestingly enough, people here don't realize it, but there are about half a million unemployed, according to the statistics that we can get, in Korea today. That is, of course, in large part due to the tremendous influx of refugees from the north during the war, which General Lemnitzer mentioned. There were 4 or 5 million of them.

Most of them have been assimilated, and a good job has been done in giving them enough lumber and a few nails and some roofing material to build their houses, and they have irrigated some farmlands. Some of them are producing salt over on the west coast.

Senator Smith. Has the Government given them land? Is that

the way they got settled?

Mr. Wood. Yes. There was some land given them by the Government.

#### PROGRAM FOR KOREA

Senator Barkley. Do I understand, then, that your program for the future is approximately the same as you have been carrying on? Mr. Wood. That is correct, sir.

Senator BARKLEY. And you think that there should be no reduction in amount if we are going to carry out our purposes in Korea?

Mr. Wood. I feel that very strongly, Senator Barkley. In fact, in my own view, we have not been able to get the handhold on the ledge that we have been struggling for with what has been requested.

My own view is, we need more, and that it would save us money to put in some more now and get control of this inflationary situation, because if it gets out of hand again, it is going to cost us a great deal

When you have got the kind of instability in an economic system that is produced by the kind of rises in prices I have cited to this committee, it wastes the resources and the talents and the energies of people to the point where it requires a great deal more money to bring it under control than to hold the line after stability has been achieved. During such periods of instability the resources of the country do not go into its reconstruction, but into speculation.

It is very important, it seems to me, to get this situation under

control.

#### HOW THE TOTAL OF FUNDS FOR KOREA WAS FINALIZED

Senator Barkley. Did you request of the budget a larger appropriation for Korea?

Mr. Wood. Yes, sir.

Senator BARKLEY. And did the President reduce it or increase it from the budget recommendation, or do you know?

Mr. Wood. I do not know, sir.

I don't say that if I were responsible for the worldwide situation. in making the decision here, I would not have made the same decision I did on the basis of the arithmetic of this situation and what is needed, in my judgment, make a recommendation as to a higher figure.

Mr. HOLLISTER. Could I explain that, Senator?

When you say did we request the budget, Mr. Wood requested us and we requested the budget. The whole request was made to the budget,

and the request went through as requested.

Mr. Wood thought the needs of the country, the country he is accredited to, in the general program he placed a somewhat higher figure than we, in reviewing the whole program worldwide, allowed. The cut-down figure was not cut—it was cut in our mutual work with the State Department, the Defense Department, and my office, where we go over all the requests that come in.

Senator BARKLEY. Does the budget consider this at all? Does it

go through the budget?

Mr. HOLLISTER. Well, the budget gets the whole picture.

Senator BARKLEY. And it makes its recommendation of the whole

picture, not necessarily based upon the details?

Mr. HOLLISTER. But the budget people do review all the different justifications, including country justifications. But the budget, as I remember it, did not cut this particular—did not have to cut this. The budget took the whole Far East figure as we put it in.

We have to, you see, review all these things. If every country-if we added together, Senator, the wishes of the representatives in every country, both on the political and the economic and the military side together, the figure would be a great deal higher than comes before the Congress now.

But in reviewing those figures, we have to be as realistic as we can

and cut as much as we can before we go to the budget on it, even.

Mr. Woop. That is always the problem, and I have been at the other end of it, too, and I did some cutting.

#### NEED FOR THE FULL AUTHORIZATION

I would like to emphasize, though, gentlemen, that, whether I am right or not about this, it would appear very clear that to cut anything from what seems to me, personally, already too low a figure,

would be a catastrophic thing for our position in Korea.

If we want to continue the economic strength and the support for the military made available from our economic aid, and want the country to be able to live with and support the size army that our military people say is necessary, we have got to have this kind of aid and, in my judgment, we need more, but we certainly shouldn't cut what has been requested here.

It just would make it very, very difficult, indeed. And there are such things as worry all of us: For example, our military people tell me that it is essential soon to raise the pay of the Korean soldier. It was planned last year. The President of Korea cut it back because he wanted to balance the budget and maintain the exchange rate. They should be spending more money on the pay of their army

today.

They can only do so, however, if they cut out something else or if we

give them more aid.

That is the kind of problem I have in mind when I say, please, at least let us have the amount that is requested for this aid in the budget this year.

# EFFECT OF THE KOREAN SITUATION ON MORALE OF THE FAR EASTERN NATIONS

Senator BARKLEY. Looking over that whole far-eastern situation, I cannot help but think what would happen to the morale of the Asian people who are friendly to us, if for any reason we should allow the situation in Korea to collapse.

Nobody contemplates that, and it would be unthinkable, in my judgment; but if, by any unfortunate conditions or circumstances, we fail to bolster this situation in this very vital part of Asia, what would be the effect of it on the morale of other peoples in Asia who

are friendly to us?

Mr. Wood. I can only speak from secondhand discussions I have had with our Ambassadors and military people from those countries. My impression from those conversations is they are all watching developments in Korea very carefully, and that the result of our efforts in Korea, if it is bad, would have the most terriffic depressing effect on the morale of people elsewhere in the Pacific area and upon our own reputation; and that success there will have the reverse effect—a profoundly constructive effect.

I don't mean to say, Senator, that I think, with the aid we have been giving and which is being requested, that there is any danger of a collapse. I think we could keep the situation moving forward and

making progress.

I am encouraged as to what can be done, certainly not discouraged to the point of fearing the possibility of any collapse, if you will make available the amount which has been requested.

I think it would be much better to give it that relatively little addi-

tional push which would put us over the top.

Senator Barkley. That is all I want to ask, Mr. Chairman. The Chairman. Well, we thank you very much, Mr. Wood.

Mr. Wood. You are very welcome, sir. It is pleasant to be with you.

I always like to meet with this group.

The CHAIRMAN. We are very glad to hear from you, always. (Whereupon, at 12:50 p. m., the committee adjourned.)

#### MUTUAL SECURITY ACT OF 1956

#### MONDAY, APRIL 30, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS, Washington, D. C.

The committee met, pursuant to call, at 10 a.m., in the caucus room, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Fulbright, Morse, Smith (New

Jersey), Knowland, Aiken, and Capehart.

The CHAIRMAN. The committee will come to order.

We have this morning the Secretary of State, who is appearing in support of the mutual security program for fiscal year 1957.

Mr. Secretary, we regret that we do not have the full committee,

but several members of the committee are out of the city today.

You may proceed, and we will defer asking any questions, if you so desire, until you finish your statement. We are glad to have you appear at this time.

#### STATEMENT OF HON. JOHN FOSTER DULLES, SECRETARY OF STATE

Secretary Dulles. Thank you, Mr. Chairman.

I am, as you said, here to ask for authority to continue our mutual security program in accordance with the President's message of March 19, 1956. This program is part of a national insurance policy which we take out as against a serious and evident threat from the Soviet Communists.

#### NATIONAL INSURANCE POLICY

The total cost of this insurance is over \$40 billion a year. Most of this, approximately 90 percent, is spent on our own United States Military Establishment—our Army, Navy, Air Force, and so forth. Approximately 10 percent is spent through foreign governments, for the most part to help our allies hold positions which are vital both to us and to them. This 10 percent makes up what we call our mutual security program.

It is particularly tempting to try to save on this mutual security part of our insurance bill, which involves payments to other governments. Of course, \$4 billion is a large sum, and we would all like to save it, and use it for tax reductions or for public works here at home. It is hard-earned taxpayers' money and it ought not to be taken and spent unless it is really needed to protect our country.

Mr. Chairman, the President, the Secretary of Defense, the Joint Chiefs of Staffs and I, myself, the Secretary of State, are all convinced that this expenditure is necessary for the security of the United States.

Congress has in past years shared the same view. Each year, after the most careful scrutiny, it has appropriated the funds to sustain this program at approximately the present rate of expenditure, and indeed for several years the rate of expenditure was much higher.

#### WHY FOREIGN AID IS NECESSARY

Nothing has yet happened to make it prudent to terminate or curtail the present program.

Let me take a few illustrations:

#### 1. THE PACIFIC AREA

In Korea there is an armistice, but there is no peace. In Taiwan (Formosa) there are almost daily military engagements between the forces of the Republic of China and the Chinese Communists, who so far stubbornly reject our proposal for a renunciation of force in the

In Vietnam there is an armistice, but no peace.

In these 3 world positions, a total of approximately 50 million free people are confronted by Communists who are using the 600 million people they rule to build a vast military establishment.

Each of these positions is of vital importance from the standpoint of the United States. If any one of them was lost, it would involve a

dangerous breakthrough into the western Pacific area.

The importance of Korea is shown by the fact that when Korea was attacked in 1950, we went to Korea's aid and spent many billions of dollars and incurred over 150,000 United States casualties to assist the

Republic of Korea to throw back the aggressors.

The importance of Taiwan (Formosa) is shown by the fact that a little over a year ago the Congress, by almost unanimous vote of both Houses, authorized the President of the United States to send our own forces, if need be, to defend that area from Chinese Communist aggression.

The importance of southeast Asia is shown by the fact that the Senate, by a nearly unanimous vote, approved our Southeast Asia Treaty which commits the United States to action in the event of Com-

munist armed aggression in that area.

These three acts indicate the vital importance which the Executive, the Congress, and the whole Nation attach to the freedom of the Republic of Korea, the Republic of China, and the three new nations of Indochina.

These positions are primarily held by local forces largely trained and equipped by the United States. But the governments of these impoverished countries cannot maintain their present forces without

some economic help also.

Therefore, we give not only direct military aid but what is called defense support which is the budgetary and economic aid needed to enable a country to have the armed forces which we judge reasonably related to the threat of aggression and our continued plans to prevent it.

The estimate of military aid and defense support expenditure next year for Korea, China, Indochina, and other area allies—the Philippines, Thailand, and Japan—is in the neighborhood of \$1.5 billion.

pines, Thailand, and Japan—is in the neighborhood of \$1.5 billion. Is it worth while? Well, without this help, these forward positions would have to be held by greatly increased United States forces, or else left exposed to a Communist takeover which either we would have to accept, with grave danger to the United States security position in the Pacific, or else we would have to use our own forces to go over there and drive the Communists out as we did in the case of Korea.

Of course, the armed forces of these allies are not alone sufficient to withstand the full might of Chinese Communist military power backed by the Soviet Union. But we maintain in the general area of the Western Pacific United States mobile striking power to back up the local ground forces.

The cost of this United States force is in our defense budget. But the two costs essentially complement each other. Neither would be

sufficient without the other.

#### 2. THE MIDDLE EAST

Then there is the Middle East situation. Pakistan, Iran, and Turkey all have common borders with the Soviet Union, and Iraq is close to it. All four are subject to Soviet threats and the proximity of Soviet power.

Pakistan is an ally of ours under the Southeast Asia Treaty. Turkey is an ally of ours under the North Atlantic Treaty, and all four of these countries have united for collective security under the Bagh-

dad Pact.

They hold the gateway to the south, where are found the oil reserves which are vital to the military power and industrial strength of West-

ern Europe. Also, just beyond is the gateway to Africa.

It would be reckless not to help these countries to help themselves and at the same time to help us. The estimate of military aid and defense support expenditure next year for these countries is in the neighborhood of \$800 million.

#### 3. WESTERN EUROPE

Then we come to Western Europe. There the military forces of NATO stand guard over the greatest industrial and military treasure that there is within the free world, except for the United States itself.

So important do we consider this that a substantial part of United States Armed Forces is stationed in Western Europe for its defense. We help maintain the military strength of our European allies by supplying them with certain types of weapons.

Also, we now have a base agreement with Spain, and this involves substantial costs. We also think it prudent to help Yugoslavia to

maintain its national independence.

The expenditure for military aid to NATO—excluding Turkey, of which we have already spoken—and military aid and defense support for Spain and Yugoslavia, is estimated for next year at about \$1 billion.

These three situations which I have described—the one in the Pacific, the other in the Middle East, and the other in Europe—plus some

relatively minor military help to Latin America, account roughly for 83 percent of the estimated expenditures under the mutual security

program for next year.

These expenditures not only make it possible to hold vital positions at less cost than any other way which can be contrived, but they provide diversified locations around the globe from which Russia could be struck, with devastating effect, should its rulers launch a war of aggression.

This capacity of retaliation is a great deterrent to war, and vitally

serves the cause of peace and our own security here at home.

#### ECONOMIC AID

The remaining 17 percent of the program is a figure which for next year, as for this year, will involve expending an approximate \$700 million. It is not directly related to military considerations,

although much of the money goes to allies.

These expenditures, however, wherever they go, are directly related to our security. They help areas in the world which are threatened by Communist subversion and which contain people, resources, and strategic locations which, in our own interests as well as theirs, should be secure from hostile alien domination.

It helps their economic development; and also their public health and education, both through our own programs and those of the

United Nations.

In these countries the political leaders and the people as a whole want to maintain their independence. They do not want to be subjected to the new Soviet colonialism that grips Eastern Europe.

They are themselves carrying the main burden of seeking to preserve their liberty—and this is as it should be. But oftentimes this is

a hard task and they need and deserve some outside help.

This portion of the program can easily be justified from the standpoint of our national security, since it offsets efforts by hostile forces to expand their power. But it has a much broader justification. The United States is far and away the most wealthy nation in the

The United States is far and away the most wealthy nation in the world. Our productivity is not much less than that of all the rest of the world put together. Our annual per capita income is over \$2,000, whereas in the newly developing countries of Asia it is under \$100.

The United States cannot live either happily or safely as an oasis

of prosperity in a desert of misery.

No wealthy individual can live happily in a community of poverty to which he is indifferent. It is the same with the society of nations. Always the wealthy and economically developed nations have in fact helped less-developed countries to develop. We were helped from abroad when we were beginning to develop this continent. That is a law of social life, and we cannot violate it except at our peril.

That is more true than ever, since the Soviets are now themselves

offering development aid.

#### DANGER OF VIOLENCE HAS RECEDED

I indicated earlier that the Soviet Communist "new look" did not warrant our curtailing our mutual security program. It is true that Soviet policies and doctrines now seem to put less emphasis on vio-

lence and that is encouraging. The danger of general war seems somewhat less, and that is an immense relief. But let us ask ourselves why

the danger of violence has receded.

It is because the network of mutual security treaties, sustained by our mutual security program, and backed by our mobile striking power, makes it unprofitable for the Soviets to follow their old policies of violence.

Their change is not due to any spiritual conversion. They have not gotten religion. They realistically take account of what the free

nations have done to make violence an unprofitable tactic.

But if we want them to continue to desist from violence, we had better continue doing the things which have led them to desist. Our policies are paying off in this respect. But that is not a reason for abandoning the policies, but for continuing them.

#### NEW SOVIET TACTICS

The Soviets have by no means lost the capacity to be violent, and their old policies could quickly reappear if we faltered in the policies which have checked them.

The Soviets' new tactics seek influence with the newly developing countries through posing as an exponent of mutually beneficial relations with these countries. They are seeking to employ trade credits, technical assistance and sales of military equipment to give credence

to this new image of the Soviet-Chinese Communist bloc.

They seek to capitalize on the desire of these newly developing countries for economic progress and their need to dispose of raw material and foodstuffs which are not entirely absorbed by western markets. Undoubtedly, the Soviet and Chinese Communists hope in this way to expand their influence while at the same time eliminating the risk of war.

These tactics also reflect a new stage in the development of the Soviet economy, where industrial development creates needs for agricultural and other raw materials and makes it possible to offer in exchange a wide range of capital goods and technical skills.

These new Communist tactics make it more than ever imperative that the United States should continue the economic phase of our manual security program and should continue it with greater flexibility and with greater assurance of continuity than ever before.

#### ADMINISTERING THE MUTUAL SECURITY PROGRAM

That is why the President has asked for more discretionary funds and why he has asked for the right to commit, out of future non-military appropriations, if granted, up to \$100 million a year for the next 10 years on long-range development projects. This represents about 2½ percent of the total mutual security program as it is running.

Today we operate in a very cumbersome manner. Already the State Department and the International Cooperation Administration are, at the request of the Bureau of the Budget, preparing programs

to be submitted for fiscal year 1958.

After those programs have been reviewed by the executive branch and are finally submitted to the Congress, and after the next Con-

gress has authorized and appropriated, then the plans must be adjusted to meet that congressional action and the changing world

Then the task of implementing the plans is begun, and there is usually a lag of a year or two between the obligating of the funds for 1958 and the actual getting of the funds into equipment, sup-

plies and services at the foreign destination.

In the case of much of the military equipment, the delay is longer. And when all this process has been completed, it is applicable only to a single year's operation, and there is no assurance that funds will be available to complete the task then begun if it is a long-range project.

All of this points up to the importance of giving the President greater discretion in the use of funds so that to that extent we do not have to try to define their use several years in advance, and also so that

there should be a modest expectation of continuity.

I should perhaps say at this point that I have spoken in terms of estimated expenditures, rather than in terms of authorizations, because in that way it is possible to get a better overall picture of what we are

trying to do.

Actually, the authorization now sought for next year is \$4,672,000,-000, which is larger than the estimated expenditures for next year. This is primarily because in both 1955 and 1956 authorizations and appropriations were considerably less than expenditures.

#### DURATION OF THE PROGRAM

It may be asked whether this mutual security program will have to go on forever. The answer, I think, is that that part of the program which contributes to the security of the United States will have to go on so long as our security is threatened.

I hope that that part of the task which relates to the development of the newly developing countries may, more and more, be taken over by private capital. But for that there must be a lessening of the politi-

cal risks.

The program could, of course, be curtailed if there were an effective plan for supervised limitation of armament. We are trying persistently to get that, and we are negotiating with flexibility. But it could not honestly be said that there are good prospects of early success.

Of course, this part of the program could be reduced if there should come into being in Russia a nondespotic form of government which was genuinely dedicated to the welfare of the Russian people and

which gave up ideas of aggressive expansion.

There are for the first time signs that the yearnings of the Russian people for greater freedom from fear and from want, and for greater freedom of thought, are assuming such proportions that the Soviet rulers find it expedient to take account of them.

On the other hand, Stalin's successors may be seeking to preserve, in a new garb, the essence of his despotism and to substitute for genu-

ine reforms a mere rewriting of past history.

External successes would, of course, help them to postpone a domestic day of reckoning. Therefore, it is now more than ever important to deny such successes to the Soviet rulers and to preserve the meaning of doing so-our mutual security program.

#### PROPOSED STUDY OF THE MUTUAL SECURITY PROGRAM

Consideration is being given to an independent study of some of the aspects of our mutual security program. There are a number of aspects of the program which the President feels, and which perhaps you, Mr. Chairman, and this committee feel, could usefully be studied by men who are highly qualified but who are not available to serve the Government on a full-time, long-term basis.

I have in mind questions as to the relative role of the State Department and the Defense Department in administering the program; as to whether we should seek to put more of our program on a loan rather than a grant basis; as to whether the program needs to be enlarged and given greater continuity to meet the new Soviet tactics: as to whether, and if so, how, we can speed up our program so that there is not the present long delay between the conception of programs and their execution, and sometimes regrettable gaps between our promises and our performance.

There is the question of the degree to which it is feasible to give Congress a dependable itemization of programs which may not come to fruition for several years, by which time the surrounding cir-

cumstances may have considerably altered.

There is the question of the degree to which it is useful to provide funds on a bilateral basis as against use of United Nations or regional agencies.

There is the question as to whether we should emphasize short-term projects of popular interest or long-range projects which have no

obvious popular appeal.

These are all important matters which justify, I believe, a kind of study which it is difficult for Cabinet members or Members of Congress themselves to undertake.

#### IMPORTANCE OF THE PROGRAM

But none of these questions relates to the basic validity of the program itself. It would indeed be ironic if, now that the Soviet has begun giving aid to its allies in terms of billions, and offering economic aid to free nations in terms of hundreds of millions, the United States should withdraw from that program which it invented and let the Soviet take over that field.

The President has, under the Constitution, the responsibility to formulate the foreign policy of the United States. And surely it is significant that he judges this mutual security program to be, and I quote his words, "vitally important to our people" and "an indispen-

sable part of our national effort."

That judgment, expressed in his message to the Congress of March 19, 1956, has not been altered. The President told me that this To have this program appreciably reduced, interfered with, or put in jeopardy would gravely endanger the security of the United States.

That is the considered judgment of the President and all his advisers who are charged with safeguarding our national security. I urge,

therefore, that the requested authorization be granted.

Thank you, Mr. Chairman.

#### NATO COUNCIL MEETING

The CHAIRMAN. Mr. Secretary, you are going abroad to the NATO Council meeting this week, I believe.

Secretary Dulles. Yes, sir, I am leaving tomorrow afternoon.

The Chairman. You will, of course, be back sometime later during our consideration of this matter.

Secretary Dulles. Yes, sir, I will be back by a week from today, by

next Monday.

The Chairman. You would then be available to talk with us about what you have suggested to the NATO Council, as well as about this program itself, as it has developed during the hearings which

we are commencing.

Actually, we heard Mr. Wood and General Lemnitzer when they were here appearing before the House committee, because we wished to save them an extra trip. We hope, of course, that you will at a later point in our own deliberations on this matter be available for a further appearance with the committee.

Senator Green?

Secretary Dulles. Could I say this, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Secretary Dulles. I say this because it has some bearing upon the matter now before us: There seems to have been some impression that I might advocate that the North Atlantic Treaty Council should become an agency for the distribution of economic aid. That is not my thought, and never has been, and I do not intend to make any suggestion whatever along that line, as I go to Paris this week.

The CHAIRMAN. Yes.

Well, we thank you very much, Mr. Secretary, for your appearance, and the committee will have some questions.

Senator Green, you may proceed.

#### MUTUALITY OF THE PROGRAM

Senator GREEN. Mr. Secretary, I want to ask you now, because I think it would be very helpful to the committee and also, to a certain extent, to the public, if you could emphasize the mutuality of this program by furnishing us a table showing what other nations are individually contributing. We would like to know what we are getting as well as what we are giving for this plan. Could you furnish that to the committee?

Secretary Dulles. I would be glad to furnish that to the committee

in executive session.

Senator Green. That is what I am asking. I am not asking for a reply now, but I want to know whether you would furnish it to the committee.

Secretary Dulles. Yes.

Senator GREEN. Thank you.

Secretary Dulles. There are very large contributions that are made

by the countries to whom we give military support.

Senator Green. I think that, so far as feasible, it would be well if a certain amount of that information could be made public because we talk about the mutual security program, and yet there is very little evidence of mutuality.

Secretary Dulles. I think, Senator Green, that a large part of that information can be made public, and we will present it to the committee in a form which will, so far as practical, admit of publication.

Senator Green. Thank you very much.

That is all, Mr. Chairman.

(The information was not available at the time of publication.)

#### OEEC

The CHAIRMAN. Senator Smith?

Senator SMITH. With regard to the NATO considerations, is it not possible, Mr. Dulles, that the OEEC, which was an inheritance from the original Marshall plan, might be available for the economic political expansion of the NATO idea?

Secretary Dulles. I have felt and indicated that insofar as it involves cooperation among the European countries in economic matters, it seems to me that the OEEC is probably a more efficient and better qualified organization than NATO itself would be.

Substantially all of the NATO, perhaps all of the NATO, members are either full members or associate members of the OEEC and in addition 1 or 2 other countries which are quite important from the standpoint of the economic life of the area-Austria, Switzerland, Sweden and so forth. That organization has been in being for a good many years now, and has very usefully served, I think, to promote economic cooperation between the European countries and I would not think it desirable to supplant that by NATO.

Senator Smith. It also has a wider range, as I recall it, than NATO

itself—I mean in countries participating?

Secretary Dulles. Yes, sir, some of the countries which are quite important from an economic standpoint in Europe, which are not members of NATO but are members of OEEC.

Senator Smith. So this might lead to a further consideration of

European integration along the lines we have discussed before?

Secretary Dulles. Yes.

Senator Smith. I do not mean necessarily a United States of Europe, but that general point of view.

Secretary Dulles. Yes.

I believe that this closer integration will probably be taking place within an even smaller group of countries, perhaps most conspicuously, the countries which are members of the Coal and Steel Community

under the Schuman plan.

As you perhaps know, those countries are studying as between themselves the expansion of very close integration, and a certain measure of supernational authority in relation to atomic energy, and they are also discussing the possibility of having as between themselves a common market.

## DURATION OF THE PROGRAM

Senator SMITH. Mr. Secretary, I have some questions prepared here with the aid of our staff that I will go through rapidly.

The first of these I think you have already answered but I think it

is a good question.

In the President's mutual security message to Congress he said that the program is as indispensable today as it was when it began 9 years ago.

Does that statement mean we can look forward to a continuation of this program for the foreseeable future?

I gather from your statement this morning your answer to that is

affirmative.

Secretary Dulles. Well, as I said, Senator Smith, it is a program for security and as long as our security is challenged we must preserve it. We hope the day will come when that challenge to our security will disappear. There are more signs that that day could come than ever before, and for that we are garteful for the efforts which have been made on a bipartisan basis for a good many years now to create mutual security and to resist the threat.

I believe that those efforts have had a very large influence in bringing the Soviets to pretend at least to give up the use of violence and force as an instrument of their international relations, but as I pointed

out there are in these matters always two things to be measured.

One is capacity and the other is intention.

The Soviets still have the capacity, and as far as their intentions are concerned, in a despotic country where there is no parliamentary control, intentions can rapidly be changed, because the intentions of a nation are not the body of public opinion of the mass of the people.

In this country you could not change the general course of our foreign policy, our dedication to peace, our unwillingness to have a war of aggression. That could not be changed because you have got the great mass of the American people who hold us to this course of peace. Even in the highly remote and purely theoretical contingencies that you should happen to have in Government anybody who wanted to follow a different course, it would be impossible for him wholly to do so.

But in the case of the Soviet Union, there still is no body of public opinion which influences those in government. They still are despotic and while there are some slight signs perhaps of a broadening of the base of government, the intentions, as I say, could be changed almost overnight. So long as the capacity exists, so long as the intentions of national conduct are entirely in the hands of a few despotic people who believe, as Khrushchev said, in constantly working for the worldwide victory of communism, for so long I believe we must take precautions.

## MILITARY AID

Senator Smith. Now, coming to the program for this year, Mr. Secretary, I am comparing it with last year.

Last year the administration asked us for \$1.3 billion for military

assistance, and \$2.1 billion for other types of assistance.

This year the administration is asking for \$3 billion for military assistance and \$1.6 billion for other types of assistance, in other words, practically 3 to 1.

Were the two figures for this year worked out independently, and to what extent did you and your subordinates participate in the decisions this year to ask for two times as much military assistance as

other kinds of assistance?

I am getting criticism from people who write to me that we are putting so much in the military aid and not thinking so much in terms of the other kinds of foreign aid that might help these countries achieve independence and security for themselves. They wonder why we put twice as much into military aid as we do in the other.

Secretary Dulles. Well, Senator, those figures give perhaps a

somewhat misleading impression.

I myself have talked primarily in terms of rates of expenditure, and the rate of expenditure for both military and nonmilitary is planned to go ahead on just about the same basis as for the past few

It was judged last year, and to some extent the year before that the amount of prior authorizations and appropriations was such that we could afford for a while to go along with authorizing and ap-

propriating less money than we were spending.

That was the case for the last 2 years.

Now apparently it is the feeling that the so-called pipeline is getting dangerously low and particularly in terms of military items. It is necessary to replenish the pipeline by an increase of authorizations and appropriations which will be larger than what we will actually expect to spend next year, and in a sense to compensate for the reverse trend of the last 2 years where the authorizations and appropriations were less than expenditures.

That is a highly technical subject. It relates to the military aspect of the program, and will be explained to you more fully by the subsequent witnesses and particicularly those who deal with the military aspect of the program but I repeat as far as the rate of expenditure is concerned it is contemplated to proceed on approximately the same

basis as for the last 2 years.

Senator SMITH. I wanted to give you the opportunity to make that

explanation.

I was aware of the situation myself but this question has been asked me so many times I thought we ought to make it clear there was not as big a difference between last year's program as there appears to be from these figures.

Secretary Dulles. No, sir. From the standpoint of the spending it

is almost exactly the same.

### FOREIGN AID PROGRAM OF THE SOVIET UNION

Senator Smith. Yes.

Well, now, Mr. Secretary, what capacity does the Soviet Union have for engaging in a foreign aid program?

We see them stepping that up and they are trying to give hand-

cuts to other countries especially in the Far East.

Have they got the capacity to do it, and if they have the capacity to do it, would they be embarrassed by us if we asked them to participate in some of these larger plans under the U. N. or otherwise in more fully helping these underdeveloped countries?

Secretary Dulles. Their capacity to engage in this field depends essentially upon their capacity to keep their own people deprived of

what we would regard as the ordinary necessities of life.

If they were interested in maintaining a decent standard of living throughout their own people, and throughout, let's say, the satellite peoples, they would have no capacity at all to do anything abroad, because their own standards of living are lamentably low, and much of the labor which they use is virtually slave labor or forced labor.

If people receive only enough food, clothing, and housing so that they are physically capable of working, they are treated almost on a standard as you would treat an animal which is engaged in farm work.

You have to give the animal enough to eat, and a barn during inclement weather and so forth. If you don't do that he is not able to

pull the plow or pull the wagon.

Now, as I say, there seems to be some rising demand within Russia for better conditions of living. Malenkov reflected that when he became the first Premier to succeed Stalin, but that has been put behind again and the present 5-year plan indicates that they are intending to hold the Russian people down to the very lowest conditions of living.

As long as they can turn the screw on the Russian peoples and the satellite peoples they can squeeze out enough to provide assistance

abroad.

The very fact that they can only give this external economic aid by depriving their own people is of itself a measure of the extent to which that economic aid is a political weapon. If all they were motivated by was a desire to improve the lot of human beings, there are plenty of human beings nearer home whose lot they could improve.

It is quite obvious if you see the impoverishment of the peoples that they now rule and the fact they deprive them in order to give to somebody else, that itself, I think, is very clear evidence that their purposes

are political and predatory in character.

But as long as they can keep their people under control they can squeeze out quite a lot of stuff. They are providing assistance to China of the order of probably several billions of dollars. They have projects of economic and technical assistance to free countries, mostly neutrals, which runs up to in the neighborhood of around, we calculate, of around \$600 million.

In other words, their program is not very far different from ours as far as amounts are concerned. Of course these figures I give are not necessarily all going to be spent in a year, but ours are not going to be

spent in a year either.

So that there is a capacity there which is created by depriving their

own people.

It is also created in part by the fact that there has been a very great emphasis in the last few years, indeed throughout the life really of the Soviet Union, an emphasis upon developing an industrial economy, emphasis upon training technicians, so that Russia has been transformed from an agricultural state into what is now the second most important, I think, industrial country there is in the world.

Therefore they can turn out manufactured goods to a very considerable extent. They still are far below our level, perhaps one-third of ours, but they still have a very substantial industrial capacity, and

they also have many technicians.

As I pointed out these technicians are at the order of the government. They can be sent anywhere. They are trained as political agents, so that they wear two hats when they go into countries. That means that they can mount a fairly formidable effort along these lines.

# NECESSITY OF CONTINUATION OF ECONOMIC AID

Senator Smith. Does that suggest, Mr. Secretary, that if the security feature were minimized, if we had some progress in disarmament and so forth, that we still would feel there was a reason to continue our economic aid and technical assistance programs in light

of this new approach of the Russians in dealing with the same weapons?

Secretary Dulles. Yes, sir.

Senator Smith. In other words, are we getting into a competition in these fields.

We are interested in the freedom and independence of these foreign countries.

Secretary Dulles. I believe if there were no Soviet activity here we would still have a duty and that it would be in our enlightened self-interest to have a program somewhat like this, although I would say that if there were no Soviet activity or the political risk involved that most of it could be taken over by private capital which is the preferable way to have it done.

But given the fact that there are such political risks that private capital does not feel disposed to take them, and the need that consequently exists, and the fact that the Soviet is activating itself in this field for political purposes, I think it would be a very disastrous thing for us to drop out of this field or to curtail our program.

Some people think our program should be considerably enlarged. Personally, I am not disposed to feel that way, although I would recognize that is a subject which could well be examined by such a

group as I have suggested might study the program.

Senator SMITH. You feel apparently that the Russian change of front on this has led to our thinking a little more widely as to our economic and technical assistance programs than perhaps we did earlier in these foreign aid endeavors.

Do you think what Russia has done is to stimulate us to do more

on that side than we are doing with NATO now?

Secretary Dulles. I think it has given us an added responsibility for doing what we should do anyway.

### DEVELOPMENT OF A HIGHER STANDARD OF LIVING FOR FREE NATIONS

Senator SMITH. I noted in the President's mutual security message he took the position that the United States should assure each free nation of the world to be able to develop a rising standard of living.

Now is that policy based on our security and well-being or humani-

tarian grounds or both?

Secretary Dulles. It is based on both, Senator.

If you can imagine a town in which there was one man who was extremely wealthy and who lived in a very fine house and had all the luxuries of life and all the rest of the people in the town were desperately poor, I believe that that man would feel that it was in his own enlightened self-interest to make a contribution to welfare—improving tenements and doing things of that sort.

People have always felt that way, and there have been people who felt that way who have been surrounded by a rising tide of hostility

so that they did not find life very pleasant for themselves.

So I believe that there are broad reasons for doing things of this sort.

You can equally explain the justification in terms of our national security because in these areas unless there is some economic assistance from us, the people will either accept economic assistance from the Soviet Union with the political hazards that go with that, or else the

forces of discontent will get into control and then Soviet and Communist influence will come in through the back door.

So unless we do it they will come through either the front door or

the back door.

And that will involve very serious losses to us because these positions are important, and you set up a chain reaction very readily.

If one place goes, another is apt to go.

# LONG-TERM COMMITMENTS

Senator SMITH. There was reference in the President's message to possibly 10-year commitments, and I would like to know if Congress should approve a 10-year commitment—which of course is a debatable question—would you expect in negotiating long-term projects with foreign countries to include a provision that each commitment of that kind would be subject each year to review by the Congress because we have to have appropriations?

We cannot approve these except year by year. Isn't the appropriation power and the appropriation activity of the Congress a real check to any danger in so-called long-term commitments, for projects which

are liable to take more than one year to develop?

Secretary Dulles. Well, obviously we cannot spend the money un-

less Congress gives it to us.

I doubt very much the wisdom of submitting to Congress the details of these projects. Congress has appropriated a very considerable amount of money which has gone to make up the capital of what we call the world bank, but there is a certain confidence that the management of the World Bank will use that money prudently and wisely, and I would hope that there would be sufficient confidence in the administration so that it would not be necessary to submit specific projects as such to the Congress.

That never has been the case heretofore.

## THE ASWAN DAM PROJECT

Senator SMITH. Well, we discussed in committee the Aswan Dam as one of the projects which we might make some contribution to.

I am a little bit confused as to how we would deal with a project of

that kind.

Suppose we helped Egypt this year to get a start with this project. Would we imply by that action that we have a continued interest and we probably would continue to help them until the dam was finished?

Is that what we mean by continuing project?

Secretary Dulles. Well, I do not like to pick the Aswan Dam as a typical operation but it seems to have gotten in the headlines. That is an operation of far greater magnitude than anything that would normally be undertaken. And I may say here that there seems to be some thought that the building of the Aswan Dam is a project to grow a lot more cotton. That is not the case.

All the indications are that the area to be brought into irrigation

is not climatically suited to the growing of cotton.

Secondly, what they want to do primarily is to grow food for the increasing population of Egypt, and to send more vegetables and the like to Europe in order to get foreign exchange.

If the Aswan Dam project ever goes ahead, and it has been studied for upward of 2 years by the World Bank, by far the greater part of the money will come not out of mutual security program. In the first place it will come from the Egyptians themselves who will be putting up about 60 percent of the requisite money. A considerable balance will be put up by the World Bank if they decide it is a feasible project. Whatever is done out of the mutual security program would be a relatively marginal part of the entire project.

Senator SMITH. That raises another question that comes to me from my area, namely, whether that help to Egypt at this time indicates that we are trying to move by that method toward some settlement in the Middle East, rather than perhaps overload our help to one

of the contestants in the Arab-Israeli contest.

We are disturbed by that and I am having a lot of pressure from people to get us into some mutual security pact with the Israelis and also send more arms to them to balance what is called the imbalance today of the strength of the two sides.

I don't know whether you want to comment on that now or whether

you want to comment in executive session.

Secretary Dulles. Well, I have nothing much to add at the moment, Senator, to what I said on that subject when I testified here before the committee at the end of February.

### PROPOSED STUDY OF FOREIGN AID PROGRAM

Senator SMITH. Now, Mr. Secretary, over the weekend I noticed in the papers the suggestion that if review of our foreign aid policies is in the offing, we would then need only to pass a smaller stopgap aid bill until we saw the result of that study.

My understanding of your presentation today is that any talk about a review of policy would not affect the present bill we are now

considering; is that correct?

Secretary Dulles. That is absolutely correct. The basis, the fundamentals of this program are not in question at all insofar as the President and his advisers are concerned.

The President has the primary responsibility to conduct foreign policy and to make, and recommend the course of action in that field which he deems necessary for the security of the United States.

That is not a responsibility which he delegates to anybody. He can take advice on it. But as far as the basis and the fundamentals of this program are concerned, they are not in question, and will not be in question. It is the considered, firm judgment of the President and all of those who advise him that this program is essential, that it should be continued at the present general level, as he has recommended, and that any appreciable alteration in that would make almost a shambles of our foreign policy.

Senator Smith. Thank you, Mr. Secretary.

#### FINANCIAL STATEMENT OF NATO COUNTRIES

The CHAIRMAN. Senator Knowland.

Senator Knowland. Mr. Secretary, I just have a few inquiries to make.

I would appreciate it, however, if the Department could see that there was supplied for the committee records a statement of the public debt of each of the NATO countries, both in total and also on a per capita basis.

Would you see that the current figures on that are supplied to the

committee?

Secretary Dulles. Yes, sir; and perhaps it would be useful also to supplement that with some statement as to the wealth of the countries concerned.

Senator Knowland. Yes, I understand, and I am perfectly agreeable for that to be augmented with their gross national product. I think while we are getting it we might also get their budgetary figures as to receipts and expenditures in the several countries involved.

(The information referred to follows:)

NATO countries—Central government finances
[Millions of dollars]

		Revenues			Expenditures			
Country	Fiscal year ending—	Total	Taxes and other revenue	Counter- part re- leases and United States local currency grants	Total	Percent for de- fense	Deficit (-), or surplus (+)	
Belgium-Luxembourg Denmark France Germany Italy Netherlands Norway Portugal United Kingdom Greece Turkey United States	Dec. 31,1955 Mar. 31,1956 Dec. 31,1956 June 30,1955 Dec. 31,1955 June 30,1955 Dec. 31,1955 Mar. 31,1956 Mar. 31,1955 June 30,1955 Feb. 28,1956 June 30,1955	1, 749 706 10, 046 6, 640 3, 566 1, 904 599 218 13, 350 365 1, 101 60, 390	1, 748 693 9, 570 6, 640 3, 531 1, 890 587 218 13, 300 315 1, 030 60, 390	1 13 476 35 14 12 50 50 71	2, 074 662 11, 895 5, 900 3, 983 2, 038 559 238 14, 300 1, 155 64, 570	18. 3 20. 5 27. 6 11. a. 21. 6 22. 6 22. 6 33. 6 31. 8 33. 2 32. 9 62. 8	-325 +44 -1, 849 +740 -417 -134 +40 -20 -950 -9 -54 -4, 180	

Note.—Precise comparison of the levels of government finance between the European countries and the United States are not possible. The conversion into dollars has been made on the basis of official foreign exchange rates, and the purchasing power of the dollar equivalent is appreciably higher in most European countries than that of the dollar in the United States. Intra-European comparisons of the converted dollar figures are subject to similar limitations. Adjustments to make the figures truly comparable cannot now be made.

made.

Defense expenditure expressed as a percent of total central government expenditure is a less comparable measure of defense burden than is defense expenditure expressed as a percent of GNP. In many countries the financial and administrative responsibility for many functions is delegated to regional and local governments; this generally reduces the range of the central government expenditure in these countries, while in other more centralized countries the expenditures of the central government comprise a larger field of activity.

Data represent in most cases budget estimates rather than actual or closed accounts.

Country		vernment gr utstanding	Gross national	Gross debt	
•	As of—	Total	Per capita	product in 1955	of GNP
elgium-Luxembourg enmark rance ermany ermany etherlands orway ortugal nited Kingdom	Mar. 31, 1956 June 30, 1955 Dec. 31, 1955 June 30, 1955 Dec. 31, 1954 Mar. 31, 1956 June 30, 1954	Millions \$6, 378 1, 306 16, 229 5, 024 7, 233 5, 423 1, 726 486 74, 200 295 1, 158	\$695 293 374 100 151 501 504 56 1, 445 36	Millions \$9, 311 4, 051 45, 195 38, 100 1 20, 480 7, 604 1 3, 284 2 1, 720 51, 100 3 1, 733 2 5, 915	68. 32. 35. 13. 35. 71. 52. 28. 145. 17.

<sup>&</sup>lt;sup>1</sup> Average 1954 and 1955.

Note.—Gross debt outstanding includes the domestic and foreign debt of the central government. Debt of government enterprises, such as railroads and public utilities, etc., is generally excluded. Precise comparisons of the level of government debt outstanding between the foreign countries and the United States are not possible. The conversion into United States dollars has been made on the basis of official foreign exchange rates, and the purchasing power of the dollar equivalents is generally higher abroad than that of the dollar in the United States. Intercountry comparisons of the converted dollar figures are subject to similar limitations. Adjustments to make the figures truly comparable cannot be made. Debt to IMF and IBRD is excluded.

### NEED FOR COLLECTIVE SECURITY

Senator Knowland. Now, Mr. Secretary, while you pointed out the value of the economic phases of the program, I take it that your position is that as long as danger threatens the free world, there will still be need for this collective security system. Am I correct in that?

Secretary Dulles. There is just as much need, Senator for this collective security system as there is need for an Army and a Navy and an Air Force of the United States.

You can ask how long are we going to need that? Well, we will need it for quite a while. And the parallel is not quite exact, because there could be a time when there was a sufficient degree of peace that we would not need this program, and we could perhaps also put our own Military Establishment on a much lower basis than it is at the present time.

But as long as we think that the danger is such that we are spending almost 10 percent of our gross national income on a defense establishment, which is a barometer of the danger as we measure it, as long as it is that great, I believe we will need a program of this sort, because our own Defense Establishment would be cut down tremendously in its effectiveness if we did not have these relationships with other countries.

Our whole capacity for retaliation, which is one of the things which, as Churchill has said, is perhaps the only thing that has saved Europe over these past years, that would largely go, without these relationships; and with that, our own security would greatly diminish.

I believe that Admiral Radford, the Chairman of the Joint Chiefs of Staff, testified before the House Foreign Affairs Committee, that it would cost 4 or 5 times as much to get in terms of our own National

<sup>&</sup>lt;sup>3</sup> 1954. <sup>8</sup> Average 1953 and 1954.

Military Establishment the increased security which we get in terms

of these relationships with other countries.

And I believe as long as the danger is so great, that, as I say, we spend almost 10 percent of our whole gross national income on a Defense Establishment, as long as the danger is anything like that great,

we indispensably need these mutual security relations.

Senator Knowland. Now, Mr. Secretary, I heartily agree with you. In view of the fact that as long as the danger exists in the world, the need for adequate defense will exist, and as long as we have the opposition of the Soviet Union and its satellites to the building up of such a collective system of defense, and as long as we have some misgivings of some of the neutrals as to the advisability of such a system, then does it not follow that that burden is bound to fall primarily on the United States and those free nations who are associated with us and are prepared to help out some of the associated powers, and that at least that phase of the problem cannot be carried on, we will say, through the United Nations Organization?
Secretary Dulles. Yes. I would say that the portion of this pro-

gram which could be carried out through the United Nations would be quite minimal.

# UNITED NATIONS' ROLE IN FOREIGN AID PROGRAM

Senator Knowland. Now I am coming to the next question: In view of the importance of this phase of the program, but not underestimating the importance of the economic side, is it not this phase of the problem which has brought some criticism to us, not only from the Soviet part of the world, which we might expect, but also from some of the neutrals, who perhaps even yet do not recognize the dan-

gers of the Soviet type imperialism?

My concern is that if the economic phase of the problem is transferred to the United Nations, as an example, as was suggested to some extent by Ambassador Lodge, it leaves us with the burden or the liability in world public opinion, of furnishing what is an essential part of the program if a free world is to be maintained, but takes away the asset side of the program wherein we might get some recognition for some phase of the program other than purely what people may call militaristic; and I would be greatly concerned, as one Senator, if that phase of the program upon which we can show the normal humanitarian instincts of the American people, were transferred to an international organization, whereas we were left only with the military phases of the program.

Furthermore, I point out that our experience with UNRRA, while it had some considerable credit to its side, also had some problems involved in that type of an operation, as the Secretary may recall.

I hope that the phase of the problem may be considered as to the advisability of leaving us with the military aspects and denuding us of the opportunity of showing that the American people have some interests in the economic side, as well.

Secretary Dulles. I can assure the Senator that that point of view is very much in our minds. This whole problem is a very compli-

There are a good many pros and cons to it.

The consideration that you point out has great weight, and will be very much taken into our thinking prior to any recommendation on that subject.

### FOREIGN AID STUDY

Senator Knowland. Mr. Secretary, in the course of your remarks you mentioned the one aspect of the program which might be subject to further study, either by a group established by the President or a congressional group, or a combined group, as ultimately the Congress

and the Executive might determine.

I was particularly interested when you mentioned the study of the problem as to whether it would be more advisable to concentrate on smaller projects which could be implemented and completed at a fairly early date, as distinguished from long-term projects which might run over a 10- or 18- or 20-year period; and I certainly hope that when we get Mr. Hollister before our committee we may go into that in more detail, because I have found in a number of areas the local people have said, "If you could just come and complete as a gift from the American people to the people," we will say, "of Cambodia," or whatever the nation might be, "a series of small health centers that could be so designated, as an example, it would have far more effect and be helpful in our establishing our democratic way out here, than maybe promising a 400-bed hospital which might not be built for 5 years."

Now, I don't want to completely lose sight or I don't think we should close our minds to the fact that there may be certain longer term or larger projects which would have merit, which could be justified from either an economic or political point of view. But I have found most of the criticism that I have observed in the last 7 years or so, since we have been carrying on work of this kind, has been because we have apparently bitten off more than we can conveniently chew; and having promised a number of things, when the performance did

not take place, we get a good deal of criticism.

I hope that that will be continually explored in the executive department.

Secretary Dulles. It will be, sir.

### UNITED STATES VERSUS SOVIET UNION AID

Senator Knowland. Now, another problem which I think we and the executive department should consider in perhaps an executive session, is the rather unusual situation which exists, particularly in some of the neutral countries.

The Soviet Government goes out and offers to lend them—take as an example \$10 million at 2 percent interest, let us say. They seem to get far more recognition and public approval from the Government offi-

cials than we do if we go in on a \$50 million grant.

Now, whether that is a human characteristic, if they get something for nothing they do not appreciate it, and think you are trying to buy them or influence their policy, whereas if you loan them a lesser sum

it appears more businesslike, I do not know.

But I find that even some of our activities in India, that a shipment of wheat sold to them by the Soviet Union apparently arouses more vocal approval on the part of some of her officials than many times that amount in a grant in wheat or other commodities from the United States.

Could you throw any light on the reason? Are we not getting across through our other agencies the fact that this has been done?

Is it the lack of communications in these countries, or how do you

explain this phenomenon?

Secretary Dulles. It is not easy to explain. I think it is partly due to the fact that the Soviet is new in this field. We have been doing it for a good many years, and anything which is new is more newsworthy than something which is old.

That is part of the explanation, but not all of it.

There is undoubtedly a disposition in some of these countries which are following a neutral policy to try to justify that policy by playing up as much as possible anything that the Soviet Union does; and that is taken to indicate that the policy has validity and that there is nothing to fear from the Soviet Union, because the Soviet Union is appearing here as a benefactor.

I do not say that we ourselves are not somewhat at fault, that probably we could do more than we do to bring to the attention of the

people what it is that we do.

Just before I went to India last March, the Indian Government circulated and gave wide distribution to a pamphlet covering their first 5-year plan, in which they set out in considerable detail the contributions to that plan which had been made by various countries.

That brought into very high relief what the United States had done. That represented, I think, a real effort on the part of the Indian Gov-

ernment to put this thing into proper proportion.

But even so, perhaps for reasons I have indicated, the relatively minor activities of the Soviet Union seemed more spectacular from a press standpoint than what we do.

### VALIDITY OF SOVIET AID OFFERS

Senator Knowland. One additional factor will end my questioning

today.

One concern that I have had is that apparently—and it fits into the prior question—the Soviet Union will go into an area of the world, maybe one of the neutral countries, and make an offer to, say, build a steam plant or any other thing that would be presumably for the betterment of the Nation.

We do know over the years, many of the countries that have entered into trade agreements with the Soviet Union have been quick to point out that they are great on promises but their record of performance, until up to recently, has not been too good; they have continually entered into agreements where they have insisted upon the smaller country living up to its deliveries, but have either not delivered what the Soviet Union has promised or delivered an inferior quality or perhaps quantity, as well.

However, they do go into these countries under their new-look policy, and make a promise to build a plant. If we go in immediately and outbuild them on the situation, maybe 15 times over, they then do not have to perform on their promise; they put up no money whatever, and then they get the credit for having triggered our activity off.

So they more or less win both ways. They do not have to produce.

and yet they have their almost unlimited field of activity.

I was wondering whether or not some thought had been given to whether or not the time had come in some of these areas to more or less call their bluff, and to say to the neutral country, "Now, look, we don't think these people can deliver." If they say they are going to build a steel plant, "We believe that we can build a better one more efficiently and will get it produced sooner with American free enterprise activity," and get a little real competition, to see if the Soviet Union is able to do it.

Now, we certainly know that they are going to have to strip their own economy and deprive their own people if they have to produce on

some of these promises.

I do not have any final and fixed opinion on it, but I do think we have to find some way of keeping from adding more Soviet promises

upon which they have to make no deliveries.

Secretary Dulles. I would certainly agree 100 percent that it would be folly for us to be put in the position where the Soviet Union, by making paper offers, could require us to match them with real money and goods.

My belief is that we should have a program which is reasonable and that in the main we should stick to that program and not be panicked

into enlarging it by Soviet offers.

Like any general rule that one has exceptions, except that I would never admit there was an exception to justify being panicky. But there may be some adjustments that we have to take into account.

In the main, we should have a program which is decent, reasonable, and not get in the position, as you put it, of matching paper offers of the Soviet Union. That would be a disastrous plight to be put into

for the reasons that you have given.

You referred to the fact that the experience in the past has been that Soviet performance has been rather bad. That was true in the past. So far as we can judge, it is not true at present, and in the main nowadays they are delivering on time or even ahead of time what they have promised.

They have in the last year or so, I would say, a very good record

of performance, as far as we can judge.

Senator Knowland. That is all, Mr. Chairman.

The CHAIRMAN. Senator Fulbright?

Senator Fulbright. Mr. Chairman, I regret I had to go to the Pentagon this morning, and I would like to pass in favor of Senator Morse if I may, and will you return to me.

The CHAIRMAN. Yes.

Senator Morse, have you any questions?

You were not here when the Secretary delivered his message to us but you have it before you.

# UNITED NATIONS ROLE IN FOREIGN ECONOMIC AID

Senator Morse. Mr. Secretary, I read the statement of Ambassador Lodge that has been referred to by Senator Knowland, and I interpret this statement to mean that he advocated greater use of

the United Nations in the handling of economic foreign aid.

Am I correct in my interpretation of your remarks that you have at least a modified opinion about that proposal and hold to the point of view which you commented on in regard to answering one of Senator Knowland's questions, that you thought only a minimum amount of economic aid should be handled through the United Nations?

Secretary Dulles. I think that when I said it was minimum, I was referring to the program as a whole. He pointed out, I think, that the greater part of the program is related to our defense arrangements.

As I said in my statement, approximately 83 percent of the program is either direct military assistance or what we call defense support—

Senator Morse. What about the 17 percent in your statement? Secretary Dulles. That would probably not lend itself to any United Nations supervision. That leaves the balance of the program, some part of which could be and indeed some part of which does go

through the United Nations.

Whether the United Nations can usefully be used to a greater degree or not with advantage is a very close question which we are considering and which I think is one of the questions which should be considered if we have a new study made of certain aspects of this program. I mentioned that in my statement as one of the things which might be studied.

There are advantages and also disadvantages in a proposal to combine with the Soviet Union in this effort. We know, Senator, because it appears so dramatically from the facts of the case that the Soviet Union is doing this only for its own political purposes.

Now, whether you can effectively sterilize it by putting it through the United Nations I am not quite clear, and there is some question as to whether we want to admit that Soviet activities and ours can be

equated in that way.

So there are both advantages and disadvantages in this proposal. That whole subject is being very closely studied by various members of the administration at the present time. We have not come to any clear conclusion on it, and it would be a subject on which I would be glad to get the views of the kind of people that we might be able to make a study of some phases of this program.

Senator Morse. Taking the 17 percent which you mentioned in your statement, which is the economic aid that we could say generally speaking is not directly connected with the military program, do you think that a substantial portion of that 17 percent might possibly be administered along the lines of the suggestion made by Ambassador

Lodge this morning?

Secretary Dulles. The entire amount?

Senator Morse. A substantial portion of that 17 percent that is not connected directly with our so-called military aid might be administered along the lines of Ambassador Lodge's suggestion this morning.

Secretary Dulles. I would doubt that anything like \$700 million ought to be administered in that way. I believe that approximately \$45 million now does go through the United Nations in one form or another, but I doubt very much whether it would be wise to increase that to any such figure as five or six hundred million.

Senator Morse. I think some \$15,500,000 goes to the United Nations

now for the technical assistance program.

Secretary Dulles. That is right.

Senator Morse. I hope this is a proper question.

Did you have any idea that Ambassador Lodge was going to make the suggestion that he made in the press today? Have there been any conferences between you and Ambassador Lodge on this matter of administering economic aid through the United Nations? Secretary Dulles. Yes; we have had a very full exchange of views

on this subject over recent weeks.

Senator Morse. Are we to understand, therefore, that there is this apparent difference of opinion between his proposal of today, if I interpret it correctly, and your testimony of today?

Secretary Dulles. Well, I would not say there was a difference of pinion. I would say that as far as the executive branch of the

Government is concerned, we have not yet come to any decision.

### ASSISTING UNDERDEVELOPED COUNTRIES

Senator Morse. Now a question or two about the relationship of the United Nations and as far as its originally intended purpose is concerned, and the problem of building up the economic productive power of the areas of the world that we are trying to win over to the side of freedom.

Is it your opinion that we should seek to try to get the nations that we are helping to recognize that our intentions are not intended unduly to influence their internal policies, which the line of Russian propaganda tries to represent to the world, but that our intention is to try to help them build up their economic productive power so that they can stand firmly on their own political legs of self-

Would you say that that is clearly our objective?

Secretary Dulles. That is clearly our objective. I think the President put it very well when he said we have no desire or intention to make over the world in our own image.

Our desire is that these different peoples of the world should have the opportunity to work out their own future in accordance with their own culture, their own aspirations, their own best judgment as to how best their form of government can serve their own community.

That may be in a way quite different from what we judge as the best way for us. I think we are trying to make that quite clear,

Senator.

Senator Morse. Does it not follow though that if we are going to meet that Russian propaganda, that wherever we can do it without in any way weakening our own security, we ought to make a maximum use of the procedures of the United Nations and our freedom-loving allies within the United Nations in carrying on this program of economic aid to even the neutral countries and the weaker free countries so that it cannot be said that we are using economic weapons as a means of holding in line countries that may at the present time be neutral?

Secretary DULLES. The United Nations is a wonderful organization, and as I think you know, I have had a great deal to do with it since its beginning and perhaps had something to do with the creation in this country of the public sentiment which led to its creation with strong

American support.

However, it is important to remember that the United Nations, like every other organization, is not an abstraction. It operates through human beings like every organization does, and you have to measure it by the people, by the governments who play the role.

The idea of the United Nations trusteeship is a fine conception, but when you boil it down, you have to find out who administers this trusteeship, is it country X or is it country Y?

When you begin to think of it in those terms, it does not seem quite

so glamorous as when you just talk about the United Nations.

In the same way here I think it must be admitted that some of the economic organizations of the United Nations have not measured up to the high standards in terms of personnel and so forth which we would like to see.

And while it is quite true that we have no desire to make the world over into our image, we equally have the desire that it should not be

made over into somebody else's image.

### THE CONTEST FOR FREEDOM

Senator Morse. That is the next point.

Secretary Dulles. And we have to watch that side of the thing, too. Senator Morse. That is the next point I want to raise because I

think that is very vital.

I would point out by way of a very brief statement preliminary to my next question. Of course, I think a race of armaments can cause war if the race is unchecked through a checker such as the United Nations.

I think an economic race between totalitarian nations and the United States can lead to war, too, because I think we have to look at the fact that when you get two great contestants seeking to outdo the other in winning the support of the neutral and doubtful nations, we have to be constantly on guard that irrespective of our high purpose, our unquestionably good motives, we may leave the impression around the world that we are seeking to control a large segment of the world, and that is why I think it is so important that we make the maximum use of the United Nations as the counterbalance beween the United States and Russia in the decades ahead in this contest for freedom.

So I ask the question; wherever we can make use of the procedures of the United Nations in helping build up the economic productive power of weaker nations, and probably get their active participation in the program, because as you know there is some criticism that we are footing too much of the bill, should we not do it as part of our answer to the Russian propaganda that we are not seeking to economically control or exploit the nations into which we are supposedly

making these investments?

Do you think there is any merit at all in that point of view?

Secretary Dulles. Yes, it undoubtedly has a certain amount of merit. It is like a good many of these matters that you can put a good case out on either side and the final decision is a close one.

The question of greater use of the United Nations is being very carefully considered at the present time. We have not come to any considered decision, and it would be one of the matters which I have indicated we would like to have studied by a fresh group that would come in here and take a fresh look at that angle.

# POSSIBLE U. N. ACTIVITIES WITH REGARD TO MILITARY AID

Senator Morse. I feel it is not only true, Mr. Secretary, in regard to this economic program. I think it is also true in connection with the military program, because I, too, stood shoulder to shoulder with you and our other colleagues in the Senate at the time you were one

of the floor leaders on the United Nations fight, particularly in connection with NATO, and I have also envisioned the United Nations as a check on all nations from the standpoint of military expansion.

It seems to me we have had to do most of the checking, and some of our allies in the United Nations have not been willing to go as far as I think we ought to go in making use of what was originally contemplated to be the longtime enforcement army of the United Nations against potential aggressors.

Take the Middle East. I think it is historic tragedy the free nations of the world have not today through the United Nations made perfectly clear that we are going to stand together against the threat

of aggression in the Middle East.

We have not laid down through the United Nations a formal doctrine to that effect, in consultations between you, the Prime Minister

of Great Britain, the Prime Minister of France and others.

It seems to me it has been more outside the United Nations, and I would like to raise a suggestion of warning this morning that I think on the economic front we ought to be careful that we do not get tricked into a Russian trap of propaganda where she can misrepresent to the world that we are seeking to economically dominate the world because of our power.

I think it perhaps would be wise for us to see how far we could go with Ambassador Lodge's suggestion this morning, which has made a lot of horsesense to me, and try to make use of the procedures of the United Nations which I at least thought at the time we went

into it was our ultimate objective.

Now you may be quite right, this may not be the time. I would like to see us work toward that time as rapidly as we can, however, I do not mean to make a speech about it but I want you to know what is puzzling me in this whole matter of economic aid.

That leads me to the next three remaining questions I have.

### STATEMENT OF ACCOMPLISHMENT ON FOREIGN ECONOMIC AID

As I go about the country, I find that there is a need for us to get out a bill of particulars or statement of accomplishment on what we have actually done in the field of economic foreign aid.

It is clear to you, it may be clear to some of us on the committee, but I do not think it is clear to the American people as to what specific aid

we have actually rendered in terms of projects 1, 2, 3, 4, and 5.

I do not want us to sign a worksheet, but would it be possible for the State Department to prepare an understandable statement that could be put out by your public information department to the American people on what we have actually done in Greece, in Turkey, in Korea, in Formosa and for these other countries in terms of specific projects that we have financed and what some of the results of those projects have been?

Secretary Dulles. I do not know whether that would be practical or not, Senator, because so many of these projects are a result, and

properly so, of a joint effort.

We do not want to seem to take the entire credit for something which is a joint project, and there might be some danger that it would look as though we were taking too much to ourselves.

I would like to ask Mr. Hollister, who is here, whether he thinks

that would be possible or not.

Mr. Hollister confirms what I have said, that in a great many cases, perhaps most cases, the specific projects would be so much a result of joint effort that it would be difficult to set them forth as United States accomplishments, or perhaps even to apportion dramatically the relaive credit.

There are certain situations, for instance in the rebuilding of Korea,

where we have done virtually all of it.

We have rebuilt powerplants, fertilizer plants, and the like. That could be done there. There is a project for Ceylon, I spoke of that once before, of giving milk to the schoolchildren. A thing like that perhaps can be dramatized, though I suppose there a substantial part of the costs are borne by the recipient country in terms of distribution costs and the like. So it is not quite so easy to do this, but I will explore it and see the best we can do.

Senator Morse. I know it is not easy. I know you can understand You, too, have stood for office. We have the job however in trying to get public support for a program such as this, to explain to the

voters and the taxpayers what good it is, what it has done.

The old money-down the-rat-hole argument still has great influence in American public opinion. And I say most respectfully this morning that it has been my observation, and I speak across this country quite frequently, there are many Americans that are asking for a bill of accounting. They want to see what you can show on the balance sheet that shows that it has been a worthwhile program.

I do want to urge that upon you. (See p. 1055.)

# SPECIAL PRESIDENTIAL FUND

Now my last question goes to the comment you make on page 7 of your prepared statement this morning where you say:

The President has, under the Constitution, the responsibility to formulate the foreign policy of the United States. And surely it is significant that he judges this mutual security program to be "vitally important to our people" and "an indispensable part of our national effort."

I certainly do not question at all your statement of constitutional principle, but you do not mean to suggest, do you, in this statement that the Congress should give to the President, simply because he has this constitutional power, a blank check in regard to the mutual security program to do in accordance with his discretion what he decides ought to be done with the money that is appropriated by the Congress?

Secretary Dulles. No, sir.

Senator Morse. Under our checks and balance system not only do Senators have the constitutional right but the clear legislative duty of applying our appropriation check by insisting that the program be broken down into its specific projects and that we eliminate from it any so-called blank check, discretionary power for the President to spend as he wills, except the usual emergency fund that we historically have given the President.

Secretary DLLES. Well, the President has asked for a certain limited discretionary authority in various form and I strongly believe that such authority should be given because the process of having

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to define all of our projects in advance is just a process which cannot

adequately and alone meet the situation.

Now most of the things that we plan to do we can explain pretty fully to the Congress well in advance, with confidence that by the time the money is put to work, which may be 4 years from now, it will be what we did explain to the Congress.

But there are other situations which come up where it is not possible to go through that, and to a limited extent, particularly in regard to certain areas, we have asked for and we hope very much that the Congress will see fit to give a discretionary use to the President of a certain small amount, relatively small amount, of the funds.

Senator Morse. Even in that particular area of discretion, is there any objection on the part of the administration that there be a requirement that the President report after the fact, that is, report subsequently, as to what specific use he made of funds that were granted to him for discretionary use?

Secretary Dulles. I would see no objection to that at all, Mr.

Chairman.

The Chairman. Senator Capehart?

Senator Capehart. Thank you, Mr. Chairman. I have a number of questions, Mr. Secretary.

First let me say that it is not intended to be critical.

I want to be helpful. I hope my questions will be constructive.

### CAPEHART AMENDMENT CONCERNING MILITARY AID

I shall offer a substitute for this aid bill that has not been introduced in the Senate as yet. I shall offer a substitue, or rather I shall offer a series of amendments to this bill, and I would like to discuss with you, if I may, in a constructive way some of these amendments.

No. 1, I shall offer an amendment that the military authorization in this bill and the responsibility for the military be turned over to our National Defense Establishment.

My question is why should not the national defense handle the military 100 percent, and why should not we appropriate the money to them?

Secretary Dulles. I doubt, Senator, that that would be advisable,

although a case can be made out for that point of view certainly.

The reason I express that doubt is this: The military establishment of a foreign country cannot be considered apart from the economic impact that that military establishment has upon the country, and what you are going to do about it.

There are several countries today which are in very serious plight

talking about changing the responsibility of the Secretary of State to handle all matters that fall within his jurisdiction.

He, of course, as you know handles many, many matters with the

military at the moment.

Secretary Dulles. Yes.

Senator Capemart. Wherever they are domiciled outside the United But there could be only one purpose for this authorization, States.

and that is for the defense of the United States and the defense of

our allies.

Now why should we have two military budgets? Why should we have a so-called domestic budget and why should we have a foreign military budget? Why not all one? Why not say to the military, "If you want to spend \$5 billion in X number of foreign countries, that is agreeable with us if you think that is the best way to defend the United States"?

Why do we break it up here into 2 budgets, 2 appropriations, and

2 organizations?

Secretary Dulles. I am commenting on this, Senator, in the same

way you are, without any desire to be—

Senator Capehart. If you think this could better be handled in executive session I will be happy to do so, but I want you to know I will introduce the substitutes or amendments and one of them will be this particular phase.

Secretary Dulles. I think perhaps it would be better to deal with

that in executive session.

### CAPEHART AMENDMENT CONCERNING ECONOMIC AID

Senator Capehart. Very well, thank you.

Now I shall also offer an amendment to this bill pertaining to economic aid. To handle all the loans or the economic aid except, and I use this term for lack of a better name, I do not know whether it is good or not, the so-called soft loans, which I shall talk about in a moment. I shall offer an amendment to this act to authorize the Export-Import Bank to extend to every country that is involved in this bill a 3-year line of credit. I think this will require something like \$2 billion, maybe a little more, each of these countries then knowing in advance what their line of credit will be, each of them being told that within 3 years if they come in with projects that are accepted, they can borrow up to that amount.

The Export-Import Bank at the moment is authorized to loan up to \$5 billion. They have approximately \$3 billion worth of loans outstanding, so they can handle an extra couple of billion without any

additional authorization from the Congress.

Why isn't that the best way to counteract this Russian offer to all these so-called backward countries for help?

What is wrong with it?

Secretary Dulles. I am not sure anything is wrong with it, but I would like to study your bill more carefully before I seem to pass an opinion.

# CAPEHART AMENDMENT WITH REGARD TO LOANS

Senator CAPEHART. Then let me give you the third thing and then

maybe we might come back and discuss all three.

The third phase of it is that I shall put in the amendment in the amount of \$600 million, I think, to be administered by ICA loans to be made to these same countries which are going to be given a credit for 2 to 3 years for so-called soft loans, meaning the kind of loans that you know they cannot repay in dollars.

We will loan them the money in dollars but they would repay in their own currencies, so a three-pronged affair would exist, one the military handling all the military aid, the Export-Import Bank handling all the so-called good loans over a 3-year period with a line of credit, the ICA handling X amount of so-called soft loans to countries that you know in advance cannot repay anything except their own currencies.

Then the fourth one would be the ICA would handle some supporting military aid to Formosa and Korea.

That is an entirely different situation I think than all others.

Secretary Dulles. I say those are very interesting suggestions which I can assure you we will study very carefully. Some of them are along the lines which I indicated near the end of my statement that I felt were problems that should be more thoroughly studied.

### ADMINISTRATION OF FOREIGN AID BY THE U. N.

Senator CAPEHART. Now one other question: The United Nations has no money to loan, does it?

Secretary Dulles. They have no money except what the members

give them.

Senator CAPEHART. That is right; so if we channeled this economic aid that Ambassador Lodge talks about and which we discussed here this morning, would it not mean then that we would have to appropriate the money to the United Nations, and wouldn't the percentage of our help be the same as it is now?

How would you get away from the fact that it was not a bilateral

affair because we would have to appropriate the money?

Secretary Dulles. Well, we would have to be authorized and the money we have to be appropriated to be turned over by us to the United Nations or such agency of the United Nations as is created for that purpose. I would not suppose that it was necessarily going into the general funds of the United Nations.

Senator CAPEHART. And haven't we had the complaint in the past, particularly as it applies to the Korean war and other instances, that

we do the lion's share of the appropriations?

Wouldn't you have the same situation here even though you channeled much of this through the United Nations?

Secretary Dulles. I expect that might be the case. Senator CAPEHART. Wouldn't that be exactly the case?

I am looking for some plan whereby we could eliminate this yearly controversy that we go through here in America in respect to this matter.

Secretary Dulles. I think that what you are groping for, what you are reaching for, is very—

Senator CAPEHART. Let the military handle it, let our own Export-

Import do it.

Let them set up an organization to do it, and then let the American people understand that there are a certain amount of soft loans that possibly must be made in behalf of our best defense.

Can't we get away from all this controversy that we go through

year in and year out?

There could only be one reason why we do this, and that is to help the United States and to help our friends.

I think the sooner we put it on a permanent basis and the sooner we get it on a sound basis and get the military all in one place and the good loans in another and the so-called soft loans—and let me say this, that a soft loan might develop into an exceptionally good loan.

It is only soft in the sense that at the moment you can't see where

the fellow can possibly repay a dollar.

Now his condition might develop where he could but at the moment a soft loan is one in which you just cannot see where the man or the country can repay in dollars in any reasonable period of time, so you take that chance.

I wondered whether, wouldn't that be the purpose of the study that

has been recommended?

Secretary Dulles. Yes. I think that the suggestions which you have made, as I gather them, would seem to me to have many elements of great merit. They are the kind of thing which I think should be studied.

I would doubt myself whether it would be practical to reach conclusions on matters so fundamental for the purposes of this year's program, but I would hope that the ideas which you are going to put into this bill of yours would be very carefully considered.

### TYPES OF LOANS

Senator Capehart. Well, you may well be right but we have to start sometime. There is always that element, Do you have enough time to do something as it ought to be done?

Secretary Dulles. That is right. Senator Capehart. What I am trying to get away from is if I understand the situation, the Russians are going over the world with a big smile on and they are saying we will loan you money, we will do this, we will do that, we will do the other thing.

Well, these countries are vitally interested because most of these countries do not produce many things that they need, which means they have got to buy them in some other country or secure them in some

other country.

We of course can supply any and everything that they might need. We need the business. They need the goods.

Now why shouldn't we set it up on a sound basis so they will know

in advance what they can and cannot do.

For example, I think I am correct, we have had such a line of credit with the Philippines, we had it with Mexico; I think we gave Mexico \$125 million not too long ago.

They have used it all I think now except \$26 million.

I think just recently we extended the Philippines a line of credit over a period of 2 or 3 years.

Why can't we do it with every one of these countries?

I think there are some sixty-odd involved. I am not thinking in terms of Western Europe because that is an entirely different situa-They are big industrial countries themselves and at the moment they do not need any economic aid, and I don't believe they are asking

I understand that this bill covers purely your so-called backward

countries.

I don't like to use that term. I do not think they are backward at all. I think they are just ready to go forward but we refer to them as backward countries. They are really countries that do not produce the things that they need in their own country, that they are forced to buy them outside, from some other country.

That is really the kind of countries they are.

Secretary Dulles. Senator, there are one or two exceptions; Spain

Senator CAPEHART. Yes; Spain would be one of the countries that would come under possibly two categories of my amendment. They would be given credit by the Export-Import Bank and then they would possibly need some soft loans; primarily, of course, because we are building those four big airbases over there and they will need certain help. But it would be all the countries except what we normally refer to as the Western European countries and England.

Secretary Dulles. There is no economic assistance plan for the

Western European members of NATO.

Senator Capehart. That is why letting the Export-Import Bank handle so-called good loans is necessary, so that they can know what they can do. I think it is very, very desirable. That is all, Mr. Chairman.

The CHAIRMAN. Senator Fulbright?

Senator Fulbright. Mr. Chairman, I don't wish to delay the com-

mittee. There are just one or two questions.

I first would like to compliment the Senator from Indiana on his suggestions. I think he shows great imagination, and I am sure there will be a lot of substantial support in the committee for his amendments.

### DISTRIBUTION OF FUNDS

Mr. Secretary, is there a formula, or what is the procedure by which you arrive at the distribution of funds as between the military and nonmilitary in this program? Is there any such formula?

Secretary Dulles. No. We do not start out on the theory that there will be a certain percentage for military and a certain percentage of

economic.

The first figure that is arrived at for most of these countries is the military; namely, what is the military requirement, how big a military establishment should they have, how much do we need to contribute to it?

We figure that in terms of the direct military aid first. Then you have to figure in terms of what that involves in the way of so-called

defense support.

Now sometimes you have to cut down your military assistance because you see that the country can't maintain as much of a military establishment as it would like, and as perhaps the military people would like, without an excessive drain upon the economy of the country.

In that connection I would like to mention that the inflationary aspects of this cannot always be remedied merely by external assistance,

which itself is apt to be inflationary.

When you have in a country much more money that is being spent than there are goods on which to spend it, it has an inflationary effect, so all of those things have to be taken into account. Then there are countries which do not have any military relations with us at all, which covers a relatively small amount of the total funds.

Those are, of course, calculated on quite different considerations

than the military.

The great bulk of the funds starts out with the military requirement

as its first premise.

Senator Fulbright. Supposing, for purposes of illustration, the

program were cut 40 percent, how would the cut by distributed?

Would it be distributed across the board, the same proportion for the military as nonmilitary? Is there any priority in your mind about the importance of the military and nonmilitary in this program?

Secretary Dulles. I could not say, Senator, that I would automatically per se give priority to the military as against the economic.

I think you would have to consider that in the case of each particular country and you could not do it on the basis of an overall generalization.

I should shudder to think what would happen if Congress should cut this by 40 percent, and I prefer not to speculate on that.

# THE PRESIDENT'S REQUEST

Senator Fulbright. How much larger is this request over last year's

request? Isn't it about 40 percent?

Secretary Dulles. The request in terms of the appropriation and authorization is, as I pointed out earlier, designed to maintain a rate of expenditure which is about the same as we have been carrying on now for several years.

Senator Fulbright. How much larger is this request than last year's

request?

Secretary Dulles. In terms of——

Senator Fulbright. In terms of dollars?

Secretary Dulles. You have three criteria: One is expenditure, another is authorization, the other is appropriation.

Each one of those figures is different.

Senator Fulbright. We are concerned here with the authorization and the same figure we were concerned with last year. This committee does not consider the appropriation. All I ask you is how much larger is this authorization request than last year's authorization request?

Secretary Dulles. The authorization request this year is \$4.6 bil-

lion. Last year it was \$3.4 billion.

Senator Fulbright. Is that somewhere in the neighborhood of 40 percent?

Secretary Dulles. Yes.

Senator Fulbright. Approximately?

Secretary Dulles. Something like that; yes.

Senator Fulbright. Would you think it is utterly fantastic that we

might give you the same as last year?

Secretary Dulles. If you did it, it should be done with the realization that last year we spent considerably more than was authorized and that if again the authorization is cut, you are drying up the plant. You cannot go on indefinitely spending more than is authorized or appropriated.

Senator Fulbright. But conditions are changing.

At least we are told by spokesmen—important spokesmen for the administration—that we have peace and things are good. Why should we not cut it down?

"Peace and prosperity" is the slogan for this administration. appears nearly every day. This morning's local paper has a great tribute to the peace that is achieved by the military leaders and so on.

What are we to believe? Are we to have one story for one purpose and another for this committee or are we not entitled to accept what we are told every day in the press?

Secretary Dulles. Senator, we have prosperity and that is the rea-

son we can afford a program.

We have peace because we have had this program, but if we do not

continue the program, we will have neither peace nor prosperity.

Senator Fulbright. The statements by most of the spokesmen for the administration do not use the language you use where you on two occasions on the first page say "but there is no peace."

That is directly contrary to what we are told practically every day. Now Senator Morse made the point that we also have constituents

and we have to be elected by them.

We have to justify this program. If we have peace, there is no

excuse for increasing this program by 40 percent.

If we don't have peace, we ought not to be told every day that we do have peace. I think somewhere along the line you have to make up your mind whether it is or is not peace. If it is not, I think somebody has to stop telling us, telling the people, that we do have peace.

### MILK TO CEYLON

I believe you said you are distributing milk to the Ceylonese; did you not say so?

Secretary Dulles. Yes, sir.

Senator Fulbright. Well the country was convinced apparently not too long ago that it was ridiculous to give milk to Hottentots and I see no difference between giving milk to Hottentots and this.

Now what is it?

Secretary Dulles. I do not understand what your question is, whether the Ceylonese are Hottentots or not?

Senator Fulbright. I see no particular difference; we have been

ridiculed unmercifully for years for having suggested-

Secretary Dulles. The Ceylonese are not Hottentots, if that is your

quesiton.

Senator Fulbright. Then you think the whole difference is what kind of person receives it. It is good to give it to Ceylonese, it is bad to give it to the Hottentots?

Secretary Dulles. I am trying to find out what your question is. I thought your question was whether the Ceylonese are Hottentots.

Senator Fulbright. No, that was not quite the question. I wanted to know why you think it is good to give it to Ceylonese and not give it to Hottentots.

Secretary Dulles. I did not say it was not good to give it to Hotten-

tots, as far as I can recall.

Senator Fulbright. Others in your party said it for many years, unmercifully ridiculed the Democratic administration for such a proposal. I do not recall whether any was ever given or not, but it was suggested I think back in the thirties. The point is this: that in this matter of peace today, this is the present program.

# JUSTIFICATION OF THE PRESIDENT'S REQUEST

It is we on this committee who are expected to vote for a 40-percent We cannot do that in the face of, or at least I cannot do it, in the face of constant statements nearly every day that this is a period of great peace, how wonderful it is that no shots are being fired around the world for the first time in many years, a decade.

We have peace. That is a statement made by responsible, important members of this administration almost weekly if not daily, and this morning the great eulogy that is appearing now serially in the Wash-

ington Post carries on the same theme.

You pick up the paper and it says that we have peace because we have a great military leader. Now in the face of that you expect us to increase the appropriation or authorization by 40 percent. How

can I justify it?

If I tell my constituents that we are in a dangerous situation, they will say, "Why it is not so. Look what the Vice President said last night, look what the Secretary of State said, look what the

President said." Are they going to believe me over them?

I would hope they would, but it is a very difficult thing. unfortunately a fact of political life. You know that. Morse was making the same point a moment ago, that he also has to go about and discuss these matters. It just is utterly inconsistent to say if we have peace we need 40 percent more money in this program.

Don't you see there is a problem for those of us who have to be

elected? Aren't you a little sympathetic with our position?

You at one time, you know, were in an elective position, but you were wise enough to change into an appointive, but you ought to have a little sympathy for us, in any case, if we wish to support this program; I have, as you know, by and large supported these programs, but it is very difficult when we are faced with that kind of propaganda.

Secretary Dulles. Senator, it would be presumptuous of me to suggest to you how to make a campaign argument, but if I had to do it, I think I could put it very simply:

The United States is at peace, we are at peace in large part because we have this program, and therefore we should carry the program on.

To say that because the program works we should abandon it, is not good logic, and I doubt whether it is good politics. But you can judge that better than I.

Senator Fulbright. My point is, there is a big difference between abandoning it and increasing it 40 percent.

Secretary Dulles. I pointed out, sir, that we are not planning to increase the program if you are talking about expenditures; that we are planning to run the expenditures on the same basis as heretofore.

If you do not increase the authorizations, if you go on spending more constantly than you get in, you are in effect disrupting and liquidating

the program.

Senator Fulbright. Accepting that for the moment, which I am not sure I do, then it means that there was some very strange bookkeeping last year and the year before, because there was a much smaller authorization.

Was there an effort made then to create an illusion that this program was being cut down, great efficiency, or something was taking place, or not? This down and then up creates a very strange situation with regard to authorizations.

If it was intended to continue it on the same level all during these years, then there is no justification for the decrease in last year's

authorization.

Mr. Chairman, I won't pursue this any longer, but I hope that at least, if I should vote for a decrease, I hope you will understand it was because I had to take somebody's word for what the situation is; and on balance, there are more of them saying it is peace than saying there is not peace.

So I may decide they are right.

That is all, Mr. Chairman.

The CHARMAN. Mr. Secretary, of course others will have to supply the details, but the committee will go very carefully into all of the unexpended balance in every single item in this bill. The unexpended balance is one of the things that has given us a great deal of trouble in trying to understand just what is involved here.

### THE GEORGE PROPOSAL FOR A STUDY OF FOREIGN AID

I hope very much—I think you do—that the President understands the suggestion which I made to the committee. I did not ask even for committee approval of it, but I asked for committee consideration of it; to undertake to find out just what the program is doing now, just what it is, so that we can, with some degree of intelligence, actually give due consideration to each item that we appropriate from year to year.

Secretary Dulles. I understand that, sir.

The CHAIRMAN. Yes; and the President understands that, or I very

much hope he does. I am sure he does.

I had very much hoped that we could have a nonofficial estimate of this program, because we on the legislative side of it are officials as well as the officials of the various branches of Government, so we want at least a fresh breath of air, so to speak, to give us an exact picture of just what is going on, what it is accomplishing, how effectively it is being used, and so forth.

Otherwise, we cannot tell whether these unexpended balances, which are very, very troublesome from the legislative point of view, can be

used or cannot be used.

I think it remains, Mr. Secretary, and I do not think you are omitting the influence that may have brought about at least a change in Soviet methods which are not really changes. I think all the neutral countries of the world know it. I do not man to say that they are fundamental changes of ultimate purpose.

I think that is your position; is it not?

Secretary Dulles. Yes, sir.

The CHAIRMAN. And it still remains one very significant fact: that bipartisanship of this committee and of the other committee in the House in considering these problems certainly has not been without its influence in affecting Soviet conclusions.

I think you will agree that that is a significant fact.

What I had in mind in suggesting to our committee consideration of this survey, was not to apply it to this year's program, because it could not be of aid and assistance until another program was under consideration next year.

Of course, if we had had this program earlier, it might have been of help to us; but we cannot do it now. We could have done it at the

time when I made the suggestion.

I contemplate that it may be of help in the future in consideration

of this problem.

Mr. Secretary, we appreciate your appearance. What I said at the beginning is that you, of course, may or may not be called back at a later time, at your convenience. We will be quite busy with various other witnesses, and we will probably begin our continuous study of this program—I will say for the benefit of Mr. Hollister and others interested—next Monday.

We cannot do it this week because of the fact that many of us are on the Finance Committee, and others have got important bills before other committees which must be reported out for action as

soon as we possibly can.

Thank you very much, Mr. Secretary.

Secretary Dulles. Thank you, Mr. Chairman.

(Whereupon, at 12:20 p.m., the committee adjourned.)

# MUTUAL SECURITY ACT OF 1956

# MONDAY, MAY 7, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS, Washington, D. C.

The committee met, pursuant to call, at 10:35 a.m., in the caucus room, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Sparkman, Humphrey, Mans-

field, Smith (New Jersey), Langer, and Knowland.

The CHARMAN. The committee will come to order.

May I present a preliminary statement?
The Committee on Foreign Relations is meeting this morning to receive the testimony of Mr. John B. Hollister, Director of the International Cooperation Administration. Mr. Hollister is to testify in support of the administration's requested authorization for the mutual security program for fiscal 1957.

Before Mr. Hollister begins his testimony, I invite the attention of members to the schedule of hearings for the balance of the week.

A copy of that schedule was sent to your offices last Friday.

I hope it will be possible for us to meet mornings and afternoons each day, but the afternoon session will be executive and will be in the committee room so it will be convenient to the floor.

It is our purpose to complete our public and executive hearings during the week, if possible, although we anticipate that there may

be some hearings running into next week.

Our next public session in this room will be Wednesday morning to hear Assistant Secretary of Defense Gordon Gray.

### SPECIAL INFORMATION REQUESTED OF EXECUTIVE BRANCH

In order to assist the committee in its deliberations, I have asked certain officers of the Government to supply us with special information. So that the record may be complete, I should now like to insert

the following letters in the record:

The first letter is to the Comptroller General of the United States, Mr. Joseph Campbell. It suggests that Mr. Campbell arrange to appear before the committee in public session to discuss with it the fiscal practices of the administration in the use of funds appropriated for the purposes of the Mutual Security Act.

In view of the recurrent questions which arise regarding unobligated and unexpended balances, I believe a discussion of these matters by the Comptroller General will be most helpful to the committee and

to the Senate.

(The letter referred to is as follows:)

MAY 4, 1956.

Hon. JOSEPH CAMPBELL,

Comptroller General of the United States.

DEAR MR. CAMPBELL: As you know, the Committee on Foreign Relations has before it the President's request for some \$4.7 billion to be authorized for the fiscal year 1957 mutual security program. The committee has begun hearings on the request, and I am hopeful that by early June it will be possible to report

the committee's recommendations to the Senate.

Year after year as the committee has considered such requests, questions arise with respect to the fiscal practices of the executive departments charged with responsibility for administering the funds appropriated. There are recurrent questions relating to the obligation and reservation of funds, the deobligation of such funds in subsequent years, the rate of expenditure, the accumulated unexpended balances, and so forth. You will recall that last year, for example, an amendment by Senator Mansfield apparently led to action by the Department of Defense reserving substantial sums during the last 48 hours of the fiscal year and that partly as a consequence of that action, the Congress reduced the sum appropriated. I enclose an excerpt from the Congressional Record of July 7, 1955, illustrating the problems confronted by the Congress in this regard.

The practices of the executive departments are of concern to the Committee on Foreign Relations when it determines the sums to be authorized each year inasmuch as funds left over from previous years have a direct relationship to

the amounts the committee believes it is justified in authorizing.

Although the representatives of the executive departments in their annual appearances before the Committee on Foreign Relations have endeavored to present their fiscal situation in terms susceptible to public and congressional understanding, their presentations have frequently not been sufficiently clear to avoid confusion.

It occurred to me, therefore, that it would be most helpful if you could arrange to meet with the committee in public session to present an independent description of present fiscal practices in connection with the mutual security program, an evaluation of those practices, and any recommendations you would feel appropriate for consideration by the committee. While fiscal practices are of concern primarily to the Committee on Appropriations, members of the Committee on Foreign Relations would profit greatly in their work from a better understanding of these considerations. I believe that such an appearance would serve substantially to clarify the fiscal considerations that must be borne in mind each year in connection with the mutual security program.

Sincerely yours,

WALTER F. GEORGE, Chairman.

The CHAIRMAN. The second letter is to Mr. Hollister. It asks for a report on the magnitude of the Soviet programs in the fields covered by the type of legislation proposed by the President. It also requests the administration to give the committee the benefit of its comments on a number of proposed variations on the aid program which have been submitted to the committee from several sources.

(The letter referred to is as follows:)

MAY 3, 1956.

Mr. John B. Hollister,

Director, International Cooperation Administration,

Washington, D. C.

DEAR MR. HOLLISTER: As the Committee on Foreign Relations examines the proposed mutual security program for the fiscal year 1957, it would be helpful to have before us a detailed analysis of Soviet assistance offers and programs, country by country, with a commentary prepared by the executive branch, including an appraisal of the capacity and intention of the Soviet Union to follow through on offers of assistance.

We should also like to have an analysis prepared by the executive branch of the several foreign aid plans which have been proposed recently by private individuals or organizations in the United States together with your comment thereon. I would hope that you will be able to include in this analysis the

following proposals which have come to the committee's attention and any other proposals worthy of consideration which you may know about:

(a) International Development Corporation, proposed by Benjamin Javits,

New York, N. Y.

(b) Point 4½ plan, proposed by representatives of Fried, Krupp, of Essen, Germany (represented by Mr. H. Struve Hensel, Washington, D. C.)

(c) Asian Development Corporation, proposed by Mr. Takasaki, Director General, Economic Planning Board of Japan (New York Times, February 14, 1956.)

(d) Foreign aid proposal by Walter Reuther, UAW-CIO, in letter to Secretary

Dulles dated March 23, 1956.

(e) Policy statement of Citizens' Committee for Expanded Foreign Aid, represented by Dorothy Norman, 124 East 70th Street, New York, N. Y.

Sincerely yours,

WALTER F. GEORGE, Chairman.

(The information requested is as follows:)

International Cooperation Administration,
Office of the Director,
Washington, D. C., May 23, 1956.

Hon. WALTER F. GEORGE,

United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: This is in further reply to your letter of May 3 requesting an analysis of Soviet assistance offers and of the principal aid plans which have recently been proposed by private individuals and organizations in the United States. In accordance with your request and after discussion with the staff of the Senator Committee on Foreign Relations, we have prepared the following attached materials, which reflect the combined efforts of the executive agencies primarily concerned with the mutual security program:

Tab A. List and analysis of Soviet Bloc aid offers in unclassified form.

Tab B. List and analysis of Soviet Bloc aid offers in secret form. This classified list contains considerable information which could not be included in TAB A because TAB A is unclassified. The classification of this additional data is largely occasioned by the nature of its source (classified information).

Tab C. Brief descriptions and analyses of the four principal assistance plans proposed by private individuals and organizations mentioned in your letter of

**M**ay 3.

Tabs A and B gives the best intelligence estimates available on the specific Soviet bloc offers by country. As the analysis in these tabs indicates, many of these offers are in reality no more than offers of trade or investment credits on liberal terms (low interest rates, long duration, etc.) or of barter arrangements involving the exchange of goods which are perhaps surplus on each side. It would, therefore, be a mistake to treat the total of the Soviet offers described, which are already in excess of \$500 million, as something exactly comparable to mutual security programs in the countries concerned or to attempt to equate the amounts of the two. As to the intention of the Soviet bloc to carry out commitments resulting from these offers and as to its capability of actually fulfilling these commitments, we believe that it should be assumed that the Soviet bloc does have such intention and that it has the capability of actually providing the goods and technical services proposed, although, perhaps, with some difficulty, in view of the need and competition within the bloc for these same resources.

The various proposals which have been advanced by private individuals and organizations are composed of one or both of the following two distinctly different categories of recommendations: (1) Recommendations for changes in the emphasis, form, methods, channels, techniques, and administration of foreign economic assistance, and in related nonaid aspects of foreign economic policy; and (2) recommendations for a substantial increase in the amount of funds devoted by the United States to foreign assistance generally, or to foreign assistance of

a particular type, for a particular purpose, or in a particular area.

Tab C consists of an analysis of four proposals which have been made by different individuals and groups. It is believed that these four proposals, when taken together, present many of the principal types of recommendations that are currently under discussion. In a broad sense they may be taken as representative proposals which have been advanced. It should be noted that these proposals seem to have a number of important elements in common, including the following:

(a) Their stress is largely on economic requirements and objectives rather than military ones.

(b) Particular attention is given to the need for capital in the underdeveloped

areas.

(c) New institutional arrangements for the handling of aid, such as corporations or funds, are generally involved.

(d) There is a general tendency to free aid from some of the existing condi-

tions which prevail under the mutual-security program.

Proposals such as those of Mrs. Dorothy Norman of the Citizens' Committee for Expanded Foreign Aid, Mr. Paul Hoffman, Mr. J. D. Zellerbach, and others call for expanded United States foreign-aid expenditures ranging from \$1.5 billion up to \$8 billion more a year. These proposals are not analyzed in detail but one general comment is appropriate: The fiscal year 1957 program which has been proposed by the President reflects the considered judgment of the executive branch as to the most desirable level of assistance after taking into account both the amounts of aid which can be effectively used to carry out United States foreign policy objectives and those United States internal fiscal considerations which affect the extent to which United States resources can be devoted for foreign-assistance purposes.

The proposed Presidential Commission will presumably undertake a review of the problem of the appropriate magnitude of aid along with other elements of the foreign-aid problem, such as the relationship of Soviet bloc economic activities, the possible greater use of U. N. institutions, the formation of funds and corporations, and many other alternative approaches proposed by individuals and

organizations.

Yours very sincerely,

JOHN B. HOLLISTER.

### TAB A

SINO-SOVIET ECONOMIC AND TECHNICAL ASSISTANCE TO THE FREE WORLD

#### 1. Sino-Soviet bloc credits

Incomplete reports indicate that the Soviet bloc has extended credits to free world countries for the period January 1954 to April 1, 1956, of at least \$553 million. Unconfirmed reports refer to additional bloc credit agreements and credit offers which, when added to the credits mentioned above, make a total of more than \$1 billion. More than half of the known bloc credits have been extended by the U. S. S. R. and the balance by the European satellites. Table 1 below shows the countries to which the bloc is known or is believed to have extended credits and where available indicates the amounts.

### 2. Grant aid

Outright grant assistance extended by the Sino-Soviet bloc has been negligible. It has been largely limited to small amounts of technical assistance under the United Nations program, invitations to students and technical study tours. The bloc has contributed or pledged the equivalent of \$5,064,705 to the United Nations expanded program of technical assistance since its inception. Other so-called bloc gifts such as the technological institute to Burma are in reality barter deals involving the supplying of the bloc by the recipient country of an equivalent value in goods.

# 3. Technical assistance

Since mid-1955 the bloc has been sending increasing numbers of technicians to the underdeveloped countries both in connection with its participation in the United Nations technical assistance program as well as the various development projects it is undertaking on a bilateral basis. Largest numbers of bloc technical personnel have gone to Egypt and Syria in the Middle East and India and Afghanistan in south Asia. Information is not available as to their exact numbers. They range from high level scientific and professional advisers to construction technicians. The bulk of the technicians have been supplied by the U. S. S. R. and Czechoslovakia.

The size and quality of the bloc's technical manpower pool varies widely from country to country. The U. S. S. R. pool of professional technical personnel in the applied sciences compares favorably with that of the United States. While the U. S. S. R. has only about one-third as many living graduates of schools of higher education as the United States, it has as many or even more graduates in applied scientific fields as this country. Certainly in the highly specialized

fields Soviet training is as good as in the United States. On the other hand there is every indication of severe shortages of most types of technical manpower in Communist China.

#### 4. Trade

The major emphasis of the bloc's current economic offensive has been on the negotiation of bilateral trade and bulk purchase agreements. The attractiveness of the bloc's efforts in this direction has been increased by its willingness to take exportable surpluses like cotton and rice from distressed sellers and to provide capital goods in exchange.

Since mid-1953 the Sino-Soviet bloc has greatly expanded the number of trade agreements it has with free-world countries. The total number of such agreements increased by 42 in 1954 and an additional 40 in 1955. Almost two-thirds of the 1955 increase represented a formalization of trading arrangements with

the underdeveloped countries.

In addition, annual protocols, under trade agreements already in existence, provide for an expansion of trade. Large increases in quotas occurred chiefly

in agreements with West European countries.

Trade of most underdeveloped areas with the bloc is still a small proportion of their total trade (see table 2) but significant increases have occurred in bloc trade with some countries over the past 2 years, notably Burma, Egypt, Indonesia, Afghanistan, Turkey, and Yugoslavia. Further gains are to be expected as trade begins to move under recently signed trade agreements. In the case of Burma, for example, arrangements recently concluded provide for exchanges that will involve one-quarter of Burma's total trade. Egypt's trade with the bloc in the first 10 months of 1955 accounted for one-seventh of its total trade, and recent sales of cotton and purchases of arms may increase this ratio to one-fifth.

Table 1.—Soviet bloc credits extended to nonbloc countries, Jan. 1, 1954– Apr. 1, 1956

[In millions of United States dollars]

Middle East:       Amount         Egypt	rea:	
Iran	Middle East:	Amount
Jordan	Egypt	(¹)
Saudi Arabia       (1)         Syria       (2)         South and southeast Asia:       100         India       115         Indonesia       (1)         Europe:       Finland       20         Iceland       (1)         Turkey       (1)         Yugoslavia       299         Latin America: Argentina       19	Iran	(1)
Syria       (1)         South and southeast Asia:       100         India       115         Indonesia       (2)         Europe:       Finland       20         Iceland       (1)         Turkey       (1)         Yugoslavia       299         Latin America: Argentina       19		
South and southeast Asia:       100         Afghanistan       100         India       115         Indonesia       (¹)         Europe:       Finland       20         Iceland       (¹)         Turkey       (¹)         Yugoslavia       299         Latin America: Argentina       19		
Afghanistan       100         India       115         Indonesia       (¹)         Europe:       20         Iceland       (¹)         Turkey       (¹)         Yugoslavia       299         Latin America: Argentina       19		(1)
India       115         Indonesia       (¹)         Europe:       5         Finland       20         Iceland       (¹)         Turkey       (¹)         Yugoslavia       299         Latin America: Argentina       19		
Indonesia		
Europe:		
Finland       20         Iceland       (¹)         Turkey       (¹)         Yugoslavia       299         Latin America: Argentina       19	Indonesia	(¹)
Iceland       (¹)         Turkey       (¹)         Yugoslavia       299         Latin America: Argentina       19		
Turkey		
Yugoslavia		
Latin America: Argentina19		
Africa · Ethionia (1)		19
Attica. Dimopia ()	Africa: Ethiopia	(¹)

<sup>&</sup>lt;sup>1</sup> Not available.

Table 2.—Percentage of Sino-Soviet bloc trade to total trade of selected underdeveloped countries, 1954-55

Country	1954	1955	Period of 1955
Country  A. South Asia and the Far East:  Burms. Ceylon. Hong Kong. India. Indonesia 1. Majaya. Pakistan. Philippines. B. Europe: Finland. Yugoslavia. Iceland. C. Near East and Africa: Iran 1. Egypt. Sudan. Israe! Syria. Lebanon. Jordan. Iraq 1. Turkey. D. Latin America: Argentina.	0. 7 11. 9 18. 9 1. 3 1. 6 2. 5 5. 6 .1 28. 3 1. 8 21. 1 12. 6 9. 7 4. 7 4. 3 1. 5 1. 9 3. 0 1. 5 12. 0	5. 3 6. 1 17. 3 1. 1 5. 2 2. 2 6. 7 (1) 26. 4 9. 9 24. 5 12. 9 14. 1 3. 2 2 1. 9 1. 7 2. 0 (4) 3. 5 20. 0	Months  12 11 12 9 10 12 9 12 12 12 12 12 12 12 12 12 12 12 12 16 6 6 11 6 12
Brazil. Uruguay.	1, 3 5. 0	3. 0 3. 4	10

<sup>&</sup>lt;sup>1</sup> Excludes petroleum exports from Indonesia and Iraq. For Iran petroleum shipments negligible in 1954; they are included in the first 2 months of the 1955 data but excluded thereafter.

<sup>2</sup> Insignificant.

[Note.—Tab B is classified and is on file with the committee.]

### TAB C

### JAVITS PROPOSAL

(Draft bill for establishment of an International Development Corporation proposed by Mr. Benjamin A. Javits, March 1956)

#### Brief summary of proposal

1. Creation of a fund financed initially by the purchase of \$100 million stock by the United States Government, and by loan by the United States Government to the Corporation of not to exceed \$1 billion the 1st year and \$25 billion by the 10th year.

2. A public issue of 5 billion shares of stock at \$5 per share would be sold. Proceeds of the sales would be put in escrow until 2 billion shares were sold, at which time a settlement would be reached with the United States Government and the Corporation would become a private corporation.

3. The Corporation would engage in worldwide investment and banking.

4. The proposal is described as an outline of the "necessary machinery by which foreign aid at a Government level can be replaced by a viable program of private investment-for-profit abroad." It is suggested that an appeal to the public could generate support for an imaginative Government-sponsored investment program with a greater impact than that of existing institutions. The corporate form of organization would give the fund more freedom of action and continuity than other Government programs possess.

Comment.—The initial phase of the proposed operation is completely Govern-

ment financed and Government operated. The Treasury would purchase \$100 million worth of shares to begin with, and would lend to the Corporation amounts ranging from a maximum of \$1 billion during its 1st year of existence to a cumulative of \$25 billion during its 10th year and thereafter. The first step then involves the creation of a new Government lending and investing agency with much greater funds and broader authority than any similar existing agency. This situation, of course, raises a major question of United States fiscal policy.

Prior to the proposed transition from Government to private ownership and while the 2 billion \$5 shares are being sold to the public the Government will

<sup>3</sup> Jan. 21 to Oct. 23.

Not available.

incur a strong moral responsibility to the shareholders for the safety of the investment. After \$10 billion of private capital has been invested, it is proposed to return the Government stock and allow the Corporation to be controlled by the private shareholders. It would seem likely that, if successful, the Corporation would have a large number of stockholders with relatively small holdings with little effective control over the policies of the organization. The question is thus raised concerning the selection of the management and the degree, if any, of continuing Government responsibility.

If the Corporation were, as suggested, to take over the functions now performed by Government aid, it would seem that it would be necessary for it to be guided by considerations of public policy. It would, under these circumstances, make loans and investments where they are needed most rather than where they are most profitable. It would assume political risks which are now shouldered by the Government. It would operate under conditions where the ability of the borrower to repay in dollars might be doubtful. A willingness to operate under such circumstances, say in those instances where the Government now extends soft loans or grants, would be incompatible with a genuine responsibility to private stockholders. It could not, of course, undertake military support projects which make up such a large part of the present aid program.

If the Corporation were to operate only in those areas where profitability and ability to repay are reasonably assured, it could not be described as a substitute for Government aid. It would then engage in the type of activities now carried on by private mutual investment funds formed recently, by the Export-Import Bank, the International Bank, and the International Finance Corporation. There is no doubt that there are profitable investment opportunities, and that the need for United States capital is great. Many of these opportunities remain unutilized for reasons other than lack of capital, such as political and security uncertainties in large areas of the world. Any special advantage over the International Bank, the Export-Import Bank, and the International Finance Corporation in overcoming such obstacles are not clear on the basis of information available at this time.

Further information on other aspects of the Javits proposal is essential before a full-scale review of the many obvious virtues and likely problems can be undertaken.

#### THE PROPOSAL OF MR. WALTER REUTHER

(Contained in a letter to Secretary Dulles dated March 23, 1956)

The Reuther proposal contains a program of 10 points, each of which are described and commented upon briefly.

# 1. World Fund for Peace, Prosperity, and Progress

It is suggested that we should commit ourselves to contribute 2 percent of the gross national product of the United States for 25 years irrespective of the success of the disarmament efforts for the purpose of helping the economically less developed nations develop their own economic resources and raise their standard of living; in addition, we should contribute 50 percent of the savings in the military budget if disarmament efforts succeed.

Comment.—Since United States gross national product is now at an annual rate of about \$400 billion, the proposal would envisage economic aid at the rate of \$8 billion per annum as compared with the present rate of less than \$2 billion.

The use of funds in such large amounts would present major problems of financial policy. The study of foreign-aid programs, which we are about to launch, will give full consideration to this whole question. However, the executive branch fund request for 1957 has been carefully studied and screened, and we believe that the request is sound.

The President has stated that the United States is prepared to contribute to a World Fund for Development and Reconstruction a substantial portion of the savings in military expenditures if disarmament is achieved.

### 2. The U.S. S. R. should be urged to participate

The U. S. S. R. should be requested to make a similar commitment of 2 percent of gross national product for 25 years. All other nations should be urged to contribute within the limit of their resources. With both the United States and U. S. S. R. participating we could usher in an era of peaceful competitive coexistence.

Comment.—If the United States were to make such an offer as is contemplated and the fund were to be administered on a multilateral basis, it might be in the

interest of the United States to maximize contributions from all countries in order to achieve maximum impact. The question of Soviet participation is one of the problems which must be explored in the assessment of the political and administrative implications of the Reuther proposal.

# 3. Program administered through multilateral agencies

It is suggested that the fund be administered through the United Nations either through existing special agencies or through the creation of a new special agency.

Comment.—As the President has stated, the administration of aid through an international body theoretically has great attraction. However, the question of control over the distribution of aid must be considered in terms of the nations and persons who control the international body. As of today, therefore, it would not be desirable for the United States to channel a major portion of its aid through the United Nations although consideration could be given to channeling more of our aid through regional organizations.

# 4. Sharing our food abundance

It is suggested that the best, most sensible, and moral place to store food sur-

pluses is the empty bellies of half-starved people.

Comment.—Under titles II and III of Public Law 480 the United States has donated very substantial quantities of food to the world's needy either through governments or through relief agencies. Under title I of Public Law 480 we have signed agreements in fiscal years 1955 and 1956 for almost \$1.5 billion worth of surplus food commodities.

The administration is thoroughly alive to the potentialities of food disposal At the same time we must be extremely careful that our surplus disposal activities not affect adversely the normal export markets of our friends.

# 5. Creation of a Federal scholarship program to train technical task force

Americans would be trained under a federally financed scholarship fund and would contract to serve in any country where their training and competence is needed and desired to implement the program of the World Fund for Peace, Prosperity, and Progress. Service would be for a period 1 year greater than and in lieu of normal military service. The cost of this scholarship program would be charged to the 2-percent gross national product fund referred to in 1 above.

Comment.—This is a particularly interesting proposal. The ICA is now engaged in expanding ways of using more young people abroad. however, the greatest need is for mature and experienced individuals. Generally,

The training of additional scientists, doctors, engineers, and technicians is necessary not only to serve abroad but also to meet the needs of American industry and society. Of course, there is not only a shortage of funds but also a shortage of teachers and professors. Consequently we find ourselves in somewhat of a vicious circle and we cannot work ourselves out of it overnight. However, we are engaged in numerous efforts to bring outstanding foreign students to America to be trained here to go back to their native countries as ambassadors of good will. Similarly the ICA has established various types of training programs abroad for the training of technicians to foreign countries.

### 6. Economic aid available equally to unalined as well as to alined nations

United States economic aid should be made available to every free and independent nation without any political strings whatsoever.

Comment.—United States policy is to make aid available to independent nations where there is need and where it is in accord with United States interests without any political strings. It is not United States policy to enforce its views, institutions, or culture on others.

# 7. United States aid available at once

Mr. Reuther suggests spending the funds from the 2 percent of United States gross national product through SUNFED, the Colombo plan, and other multilateral agencies while the United Nations is considering the creation of the

Comment.—As indicated in 3 above, the President has stated that as of today it would not be desirable for the United States to channel a major portion of its aid through the United Nations. Nevertheless the desirability of using the United Nations to a greater degree is being considered, and should be considered in the study of aid programs. Consideration also should be given to channeling more of our aid through regional organizations.

### 8. Long-range economic commitments

Long-range economic commitments are essential in dealing with long-range economic problems.

Comment.—The Congress has been asked for authority to make long-range commitments up to \$100 million per annum (sec. 421 of proposed Mutual Security Act of 1956).

### 9. Anticolonialism

We need to speak out clearly and act courageously against all forms of colonialism.

Comment.—The position of the Government that we support the rights of all people to self-determination has repeatedly been made clear both in the United Nations and in other forms.

### 10. Race relations and equal opportunity at home

The full implementation of the historic decisions of the Supreme Court offers us an opportunity to demonstrate America's continuing dedication to moral concepts and human values.

Comment.—The Supreme Court's decision and numerous acts by the Government have made it abundantly clear that America is committed to the principle of equal rights and equal opportunity.

#### ASIAN REGIONAL DEVELOPMENT CORPORATION

(Tentative Japanese proposal of the type described by Takasaki and others)

### Brief summary of proposal

- 1. The establishment of a Corporation with an initial capitalization of \$100 million to \$200 million.
- 2. Membership in the Corporation limited to Colombo plan members, making possible participation by and contributions from Asian as well as non-Asian (United Kingdom, New Zealand, Australia, Canada, and United States) members.
- 3. The United States contribution to the capital stock of the Corporation would be about \$50 million.
- 4. The Corporation would provide financing to private industry and/or governments for development projects designed to develop natural resources and expand trade in the free Asian area and would also assist in project planning.

### Comments and problems

The proposed Corporation would operate solely in the Asian area and provide a regional institution to which member governments could look for assistance in the financing of certain aspects of their development programs. The Corporation, a continuing regional financial institution with a revolving fund of resources, might do much to stimulate regional cooperation and enhance economic interrelationships.

Establishment of such a Corporation raises the problem of proliferation of public lending institutions in the international field. The International Bank, the Eximbank, and the prospective International Finance Corporation, although global in scope, operate in the Asian area. The existence of an Asian Development Corporation creates a number of operational problems regarding the scope of its activities so as to avoid duplication with these existing international lending institutions. This problem might be remedied by the Corporation's concentrating on loanable-type projects whose repayment potentiality requires a longer period of amortization than lending institutions are now capable of extending. However, if the Corporation makes such loans repayable in hard currencies, the capacity of the borrower to service loans from institutions such as the International Bank might be proportionately reduced. Repayment to the Corporation might be in local currency and for very long terms, but then the revolving fund aspect of the Corporation in usable currencies would be more difficult.

The effectiveness of such a Corporation, too, will depend in large measure upon effective management capable of balancing the need for development in the area on the one hand with the proper use of its limited resources on the other.

The desirability of a multilateral approach to development through a Corporation as compared with the present practice of bilateral aid programs requires an appraisal by both the prospective donors and recipients of the Corporation resources.

### KRUPP PROPOSAL FOR A "POINT 41/2 PROGRAM"

(Scheme proposed by representatives of Fried. Krupp, of Essen, Germany, represented by H. Struve Hensel, of Washington)

Brief summary of proposal

1. Syndicates of private firms formed to construct facilities in underdeveloped countries.

2. Credits "on somewhat liberal terms" provided from United States to these

syndicates to assist in the financing of these projects.

Comment.—Large industrial concerns have both the technical knowledge and the organizational ability to get things done promptly and well. indicated it has the desire and the initiative to search out and develop projects in underdeveloped countries—a dynamic function not usually performed by banking institutions.

The Krupp proposal apparently would require extensive credits from the United States for the syndicates on terms more liberal than those now available from such sources as the Export-Import Bank and the International Bank. This would present the problem of favoring the syndicates more than borrowers from these landing agencies. No reference is made to non-United States sources of

capital which might provide credit to the syndicates.

Negotiated contracts between the United States Government and international syndicates would require substantial changes in policy if the United States were to accept preclusive arrangements with given syndicates and to forego competitive bidding for contracts. Too, if firms normally competing with each other were joined together in a consortium, the country to be developed would be deprived of the benefits of competitive bidding.

Since many economically underdeveloped countries have no large entrepreneurial class and lack local private capital, the successful development of private ownership presents a special problem. The Krupp proposal does not indicate whether the syndicates would be willing to provide equity capital involving the ownership and operation of the new concerns, either with or without

the participation of private domestic interests.

Many details of the Krupp proposal are apparently not yet fully developed. Before further analysis is possible, questions concerning the precise nature of the scheme must be answered by its supporters. Among such questions are those regarding the degree of subsidy needed, if any, to stimulate syndicate operations, the terms of credits involved, and the administrative machinery required to relate the private to governmental institutions.

The CHAIRMAN. The last letter is to the Secretary of Defense, and requests estimates as to the savings in the military assistance funds as the result of the new pricing policy for equipment purchased from the Armed Forces of the United States.

(The letter referred to is as follows:)

May 3, 1956.

Hon. CHARLES WILSON,

The Secretary of Defense, Washington, D. C.

DEAR Mr. SECRETARY: As the Committee on Foreign Relations considers the mutual security program for the fiscal year 1957, it would be helpful to have before us your analysis of the probable effect of the proposed change in MDAP pricing policy on the cost of reimbursement to the military departments from MDAP funds for undelivered items for fiscal year 1950-56 programs and for deliveries against the proposed fiscal year 1957 program. I believe this analysis should include tables showing, for typical items when make up more than half the value of reimbursements from MDAP funds to each of the military departments, the difference between the old and the proposed new price charged to MDAP funds.

Sincerely yours,

WALTER F. GEORGE, Chairman.

(The information requested is as follows:)

Assistant Secretary of Defense, International Security Affairs, Washington 25, D. C., May 18, 1956.

Hon. Walter F. George,

Chairman, Committee on Foreign Relations,

United States Senate.

DEAR MR. CHAIRMAN: Your letter of May 3, 1956, to Mr. Wilson has been referred to me for reply. You requested an analysis of the probable effect of the proposed change in mutual defense assistance program pricing policy on the cost of reimbursement to the military departments from mutual defense assistance program funds for undelivered items for fiscal year 1950-56 programs and for deliveries against the proposed fiscal year 1957 program. You will recall that Mr. McGuire testified in some detail on this point at the hearings on May 14.

The present program which forms the basis for the request for authorization of funds for fiscal year 1957 has not taken into account the proposed change in the definition of value for two reasons. First, we could not predicate our programs planning upon a proposed change in the law which might not meet the congressional approval. Rather, we felt that we must follow the current statutory definition of value as prescribed by the Congress. Second, the proposed amendment will only establish the general principles on which the detailed new definition of value will have to be based. A change such as this may affect thousands of items, and the process of formulating workable criteria, taking into account age and condition of the items, is not an easy task. For example, because many components are common to more than one end item, the establishment of standard prices for those components is a requisite before the end-item standard price may be computed.

Indeed it is the realization of these difficulties which has dictated the form of the present amendment. You will note that even with the amendment the present definition of value stands intact, and that the new language is added on at the end directing the Secretary of Defense to move to the new definition of value at the earliest practicable date. A draft of such new general pricing regulations is in the process of being coordinated by the Office of the Secretary of Defense with the service Secretaries. Although it is not possible at this time to name a particular date by which the new regulations will be completely implemented, I am hopeful that we will be able to issue the new general regulations shortly after the amendment becomes law and substantially to involement these

general regulations before the beginning of fiscal year 1958.

The new language, when implemented by regulations to be issued by the Secretary of Defense, will affect only the common items yet to be delivered at the time the new regulations go into effect. Such common items would be those (1) ordered by the mutual defense assistance program from the military departments against prior year appropriations, or (2) common items included in the fiscal year 1957 program to be ordered from the military departments with fiscal year 1957 funds. The new pricing will not apply to offshore procurement, Navy shipbuilding, repair and rehabilitation, training, packing, crating, handling, and transportation, infrastructure, facilities assistance, mutual weapons development, support of International Military Headquarters, administrative expenses, military soft goods and construction (formerly direct forces support) and the like. Moreover, the new pricing policy will not pertain to or influence the price of those common items which are being currently procured from manufacturers by the military departments for delivery to the mutual defense assistance program. It will not apply to items to be supplied from service stocks which do not deteriorate, i. e., ammunition, spare parts, or to modern items of equipment recently acquired.

The value of undelivered common items of all types from prior year appropriations is estimated to be \$3.4 billion, and the estimate of common items in the fiscal year 1957 program is \$1.9 billion, for a total of \$5.3 billion. It is impossible to calculate what portion of this total will be affected by the new pricing formula or to what degree the regulations to be issued by the Secretary of Defense will affect the price of those items which are subject to their application. Furthermore, it is not possible to estimate when the items that are affected will be delivered; consequently the savings which will develop will accrue over a relatively long period of time. In any event, it is not expected that the savings in

fiscal year 1957 will be significant.

Close attention will be given to the effect of the institution of the new pricing legislation and implementing regulations. By the time of the presentation of the fiscal year 1958 program, Defense Department spokesmen will be in a position to project an estimate of future effects of the change in the definition

of value.

Finally, I think it important that the record be clear that while the effect of the change in definition would be to enable the mutual defense assistance program to obtain a limited quantity of equipment and material at a lower price than has heretofore been the case, there will be no net savings in future programs insofar as the Government as a whole is concerned. These are transactions between military departments and the mutual defense assistance program. The principal purpose of this amendment is to provide a more businesslike basis for transactions between the military departments and the mutual defense assistance program, in that the mutual defense assistance program will pay the services for the fair value of such equipment. When the new definition is fully implemented, the effect moneywise will be a reduction in mutual defense assistance budget estimates and a corresponding reduction in reimbursements accruing to the military service appropriations. This reduction in reimbursements will in turn be taken into account in future military service budget estimates. Sincerely.

GORDON GRAY, Assistant Secretary of Defense (ISA).

The CHAIRMAN. I should add that the proposals of the Prseident have not yet been incorporated in a Senate bill. For purposes of committee consideration, I suggest that we proceed on the basis of the House bill, which we expect will be before us as passed by the House prior to the time the committee will be ready to report the results of its deliberations to the Senate.

A copy of the House bill is before each member of the committee. I will insert the letters for the purpose of the record, but without

reading them in full.

Mr. Hollister, we will be very glad to have you proceed now, and if vou do not wish to be interrupted until you finish your prepared statement, we will respect your wishes.

### STATEMENT OF JOHN B. HOLLISTER, DIRECTOR, INTERNATIONAL COOPERATION ADMINISTRATION

Mr. Hollister. Mr. Chairman, as far as interruption goes, any time any member of the committee wants to interrupt as I go along, I would be very glad to answer at that time.

The CHAIRMAN. Well, sir, that is all right.

Mr. Hollister. I have a prepared statement which has been filed with the committee, and which I hope can be printed in full. thought that to save the time of the members of the committee who are present, I would read parts of it now and refer to the charts that I have here as I read those parts of the full statement.

The CHAIRMAN. The full statement will be incorporated. Mr. Hol-

lister.

Mr. Hollister. Mr. Chairman, I appear before you in support of the President's request for authority for funds to carry out the mutual security program in fiscal year 1957. As the President has indicated in his message, and as the Secretary of State has already emphasized to you, this program is for our national security and defense and represents a vital part of the foreign policy of the United States.

Since my appointment as Director of the International Cooperation Administration as of July 1, 1955, I have visited each of the principal regions in which the mutual security program is carried out in

cooperation with other nations of the free world.

Through these visits, and by regional meetings with the chiefs of our missions in Europe, the Near East and Africa, and in Latin America, I have tried to gain firsthand knowledge of what the United States is attempting to accomplish in various parts of the world.

I felt it particularly important to visit each Far Eastern country in which we have a mutual security program, because so much of our

assistance is rendered there.

### ROLE OF THE DIRECTOR OF ICA

The mutual security program deals with both military and non-military assistance. By virtue of the Executive orders of last year

the Director of ICA has two distinct roles in this program.

First, he is the head of International Cooperation Administration, a semiautonomous operating agency within the State Department. ICA develops and executes most of the nonmilitary phases of the program. Planning and general administrative work is done in Washington, but the agency has several thousand representatives in the field. General policy guidance is received from the Secretary of State in all foreign-policy matters.

Second, the Director of ICA is also coordinator of the whole program by special delegation of the Secretary of State. It is his duty under this delegation to coordinate both military and nonmilitary

elements of the program.

We feel that the problem of mutual security in each country is a single one in which all elements of the situation, including matters of foreign policy, as well as economic and military considerations, must be taken into account.

In our planning we try to give due weight to all of these considerations and to frame in each country a balanced program which will effectively accomplish the objectives of the Mutual Security Act.

We adopt the same principle, that the program in all aspects is an integrated one, in presenting to you our requests for funds. We propose to outline to you the problems of each region and country through a team consisting of (1) the State Department Assistant Secretary (or his deputy) for the region under discussion, who can answer your questions on foreign policy; (2) a representative of the Department of Defense who will describe the military program; and (3) a regional representative of ICA who will outline the economic and nonmilitary programs.

The program is a balanced effort to meet the Communist challenge

for domination and to build up the stability of the free world.

### THREE PRINCIPLES OF THE PROGRAM

There are 3 things which I want to accentuate, 3 principles in connection with this program:

1. We must keep up free-world defenses.

2. The new Communist activities in the economic field emphasize the importance of our continuing along constructive lines, on a well-planned basis, our programs of assistance to our allies, and other nations of the free world.

Particularly is this important in Asia and the Middle East. The Soviet efforts to effect economic penetration of the free world must be taken seriously—and must lead us to be certain that our own programs are as well adapted to the needs of the countries we are trying to

help as we can make them.

3. The constantly changing situation in the Middle East and Asia today makes it extremely important that the United States be in a position to move quickly and effectively to take advantage of all opportunities to advance the cause of world peace and free-world independence and stability. Authority for increased flexibility of action is essential.

Senator Smith. Mr. Hollister, would you mind indicating when you skip? I cannot keep up with you. I want to follow the text where

### THE PRESIDENT'S REQUEST

Mr. Hollister. I summarized pages 3 and 4 very quickly. I am

now at the top of page 5.

New appropriations of funds for fiscal year 1957 are sought in the total sum of \$4.86 billion. Of this total, \$3 billion is asked for military assistance. One billion eight hundred and sixty million dollars is asked for the nonmilitary program. It should be recognized, however, that much of the nonmilitary program is closely related to the military aspects of the program.

The Secretary of State estimated that at about 83 percent of the

whole program the other day in his testimony.

The Department of Defense will administer and spend the military assistance funds. The International Cooperation Administration will administer the funds for defense support, development assistance, and

technical cooperation.

Now, the next 2 or 3 pages involve definitions of military assistance, defense support, development assistance, and technical cooperation, and I think that the members of the committee that I see here are so fully aware of those distinctions that it is hardly necessary, as long as it is going into the record, for me to go into that in detail now.

I come now to page 7, Senator Smith-

#### DIRECT FORCES SUPPORT

Senator Green. May I interrupt there to clarify my understanding?

Mr. Hollister. Yes. Senator Green. Military assistance, it says, now includes what was formerly called "direct forces support." Where was that before?

Mr. Hollister. Yes, sir. Because last year there was a shift of what used to be called "direct forces support," which was handled by the Foreign Operations Administration, and is now handled, operationally, by the Defense Department. So that three-hundred-million-dollars-plus of what used to be called "direct forces support" is now handled as part of the direct military assistance. That is why we say "now." We emphasize the word "now."

Senator Green. Well, it affects the comparison of the totals, then? Mr. Hollister. No, sir. It was merely called by a separate item

before, "direct forces support."

Yes; it does change the totals as between the so-called military and nonmilitary.

Senator GREEN. Yes.

Mr. HOLLISTER. If you are comparing them over the years, it does

Senator Green. But not the total expenditure.

Mr. HOLLISTER. Because that item now goes into the military side

Senator Green. Transferring it from one subhead to another; is

that right?

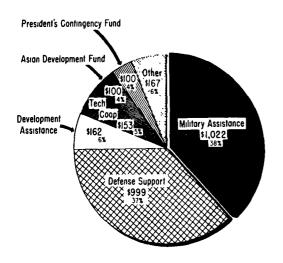
Mr. Hollister. Yes.

Senator Green. Thank you.

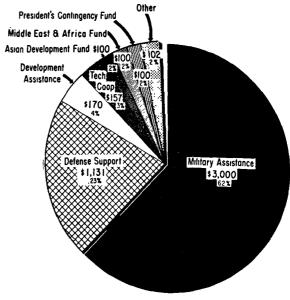
### THE MUTUAL SECURITY PROGRAM BY FUNCTIONS

Mr. Hollister. I now come to my first chart which I have here, which gives the mutual security program by functions, the 1956 appropriations against the 1957 appropriation request.

# MUTUAL SECURITY PROGRAMS BY FUNCTION FY 1956 APPROPRIATIONS FY '57 APPROPRIATION REQUEST



\$2,703 MILLION



\$4,860 MILLION

Excludes programs of \$105 million to be financed from reappropriations or funds remaining available in 1957.

You see the big increase in the military assistance is largely the difference between the 2 years, this red being the military assistance requested for 1957, this being what was appropriated for 1956, the proportion of the whole total of the 2.7 billion which was appropriated last year, and the 4.860 billion which was asked for this year.

Senator Green. May I ask a question there again?

Mr. Hollister. Yes, sir.

### ASSISTANCE TO THE MIDDLE EAST

Senator Green. I notice a difference on the two for comparison; in the left-hand one there is no provision for the Middle East, and that has been added in the other one.

Mr. HOLLISTER. There is a Middle East and African fund we are requesting this year which was not in the appropriation last year.

Senator GREEN. I know, but there is a hundred percent in both

of them, so that must affect the other, as well.

Mr. Hollister. I don't quite understand your question, Senator. Senator Green. If you put in a new element, then it affects all the other elements.

Mr. Hollister. To that extent, yes, sir, that is right.

Senator Green. So it makes the comparison very difficult. But you can make a comparison if there are just the same elements in the 2; but when you add 1 element it throws all of the comparisons out.

Mr. Hollister. Except all these are nonmilitary and all these are nonmilitary; this is merely a breakdown into a new fund which we are asking for this year, and which we did not have last year.

Senator Green. It would not affect military, but it would affect

all the nonmilitary elements.

Mr. HOLLISTER. When I come to discussing it by areas, you will see, of course, that the Middle East one drops into the Middle East area, just as the Asian fund drops into the Asian area.

Senator Green. What was the reason for putting it in now and

not putting it in before?

Mr. Hollister. Because we are trying, Senator, to get an area of maneuver in our appropriations so that we are able to meet emergencies as they may come up. It is very difficult when it comes actually to operating, to take an illustrative program which has been presented to the Congress on a very tight basis, country by country, for when the time comes to put that program into operation it may well be that changes in the conditions in a particular country make it important to increase the program, or perhaps reduce it, in that country.

It also may be equally important to pick up some brand new program, because the cycle is so long from the time that these things are originally planned until the time when the obligations are actually

made and the expenditure goes forward.

So we are asking the Congress this year to give us a certain amount of flexibility which we have not had in the past, and the \$100 million Near East fund is one of those items of flexibility which we think will help us to do a better job in this work.

Senator Green. Well, the more detail it gives, the less flexibility

it has.

Mr. HOLLISTER. That is in detail, though, Senator. By asking for a \$100 million fund for the Near East, not in detail as if we had taken \$100 million and divided it into 6 or 7 countries, we have a fund that we can reach into.

Senator Green. I do not see justification for making any change in these 2 years, because the only difference is that the situation is a

little more tense. That is all.

Mr. Hollister. Well, Senator, all I can say is this program has been studied very carefully. We do feel that if we are granted the various items we are asking for, we will be able to do a better job and have greater flexibility, and will be able to meet the exigencies of the situation.

Senator Green. If they change every year, the comparisons are not

worth much. That is the trouble.

Mr. Hollister. The comparisons are worth only what the figures show, and it is obvious that if there is an illustrative program which is departed from materially, we should be here justifying to the Congress why we depart from the illustrative program.

And we are asking, as I say, that in certain areas we be given a cer-

tain amount of discretion, so that we haven't got the illustrative pro-

gram that will in a way tie our hands.

### TERMINOLOGY

Senator Green. Is there anywhere in the report a definition of the terms you have used as shown on those charts?

Mr. Hollister. Yes, sir; there are. I have just skipped pages 5, 6, and 7, which do define those terms, rather briefly, it is true, and we

can get more detailed definitions if the Senators prefer it.

I think that the members of this committee pretty well understand those definitions, or I can go through them now. The definitions start in the middle of page 5, Senator, and run through the bottom of page 7 of my statement.

Senator Green. Well, where is the Middle East defined? Middle and African fund, where is that defined in your report?

Mr. HOLLISTER. I will have to find that. I will come to it later.

Would you rather wait until I reach it?

Senator Green. No; I just want to know whether it is defined. Mr. Hollister. Yes, it is. Page 21, which I have not yet reached, discusses the Middle East and African fund. You see, we have adopted in our operations the same method the State Department has in dividing it into the areas, the Latin American, European, Near East, and African, and the Far East, and-I don't see the list of the countries.

I can get the list for you, Senator. The Near East and Africa runs as far east as India; and includes Ceylon. However, in the presentation of the mutual security program the South Asia group (Afghanistan, Ceylon, India, Nepal, and Pakistan), normally falling in the Near East and Africa area, are listed under the general heading "Asia."

Senator Green. Does it include Turkey?

Mr. Hollister. Yes, sir; in fact, we have Greece included in it, as well. That is because of old custom. The State Department has always operated that way, and in order to have our proper coordination with the State Department and have the desks work with each other, we have adopted the same area organization that the State Department has used for many years.

Senator Green. I think it should be definitely stated what we mean

by the Middle East here. It includes Greece and Turkey?

Mr. Hollister. Greece and Turkey are in the Middle East and Africa, and, as I say, the Asian Continent runs over as far as India and Ceylon; and Burma is in it, as well.

The Middle East fund stops at Afghanistan, if you are talking about the fund. I thought you were talking about the areas of the

world.

Senator Green. Does that include Pakistan?

Mr. HOLLISTER. No; it does not. You are discussing the Middle East fund?

Senator Green. I do not care whether you call it improper or

proper.

Mr. Hollister. Unfortunately, Senator, there are a lot of these terminology things which are rather difficult. The use of the Middle East fund stops at Afghanistan, because the Asian fund runs over that far the other way, but that is not the extent of the territory covered in the term "Near East and Africa." We go further east, and include south Asia.

Senator Green. My point is not what it does contain. The question is whether there is any statement as to what it contains.

Mr. Hollister. I am sure we have a specific statement.

Senator Green. Do you not think you should clarify this report for the reader?

Mr. HOLLISTER. I shall be very glad to file a statement of what area is covered by this, if it does not appear in the presentation book. I will do that.

Senator Green. Thank you.

### (The information referred to follows:)

### Middle East, Africa, Asia, Far East

[For statement of the situation so far as the statutes are concerned, see footnote 1]

Col. 1 <sup>2</sup>	Col. 22	Col. 3 <sup>2</sup>	Col. 4 <sup>2</sup>
"Near East and South Asia" (NEA) State Department and ICA regions, for administrative purposes	Countries in Middle East fund territory	Countries in Asian territory 3	"Far East," (FE) State Department and ICA regions, for administrative purposes
Near East and Africa: All of Africa (including Egypt and Sudan) Greece Iran Iraq Israel Jordan Lebanon Saudi Arabia Syria Turkey Yemen South Asia: Afghanistan Ceylon India Nepal Pakustan	Afghanistan Greece Turkey All of Africa (includ- ing Egypt and Sudan) Iran Iraq Israel Jordan Lebanon Saudi Arabia Syria Yemen	(For purposes of Asian fund and other Asian appropriations) Afghanistan Burma Cambodia Ceylon Indonesia Japan Korea Laos Malaya Nepal Pakistan Philippines Singapore Taiwan Thailand Vietnam India	

l The countries included in the "Near East and Africa" and "Asia" regions are not defined in the Mutual Security Act of 1954, as amended, or the Mutual Security Appropriations Act, 1956. Rather the geographic coverage of those regional designations is established in the legislative history of these acts—mainly in the executive branch presentation documents which constitute a part of that history. The only exceptions from this generalization are Greece and Turkey, which the Mutual Security Act (see secs. 105 (c) and 131) expressly indicates are included in the Near East and Africa, and the Indochina States, which that act (see sec. 105 (b) (3)) indicates are included in Asia.

The area covered by the President's fund for Asian economic development is similarly not defined in the legislation but rather has been established only through legislative history. Sec. 420 of H. R. 19082 (special authorization for the Middle East and Africa) does not define the geographic area covered by that section, and the section-by-section analysis of that proposed provision contains the following statement:

"The term 'general area' is used because, in view of the fluidity of developments in that part of the world, it is not considered advisable to specify the exact geographic area covered by this section. This approach

tt is not considered advisable to specify the exact geographic area covered by this section. This approach is similar to that which was used in sec. 303 of the Mutual Defense Assistance Act of 1949, providing for assistance in the 'general area of China.' (See, in this connection, p. 38 of H. Rept. No. 2538, 81st Cong., 2 Aid is not proposed for all countries on this list.
3 In general, "Asia" for mutual security program purposes is the Far East plus south Asia

### MILITARY ASSISTANCE

Mr. Hollister. Starting at the bottom of page 7:
For "Military assistance" a substantial increase is requested for 1957. This increase I will discuss a little later in discussing the course of

military assistance appropriations in recent years.

For the moment, I merely point out that in each of the last 2 years military assistance expenditures have run about \$1.5 billion above appropriations. The military assistance program thus has been operated largely on the backlog from prior year appropriations.

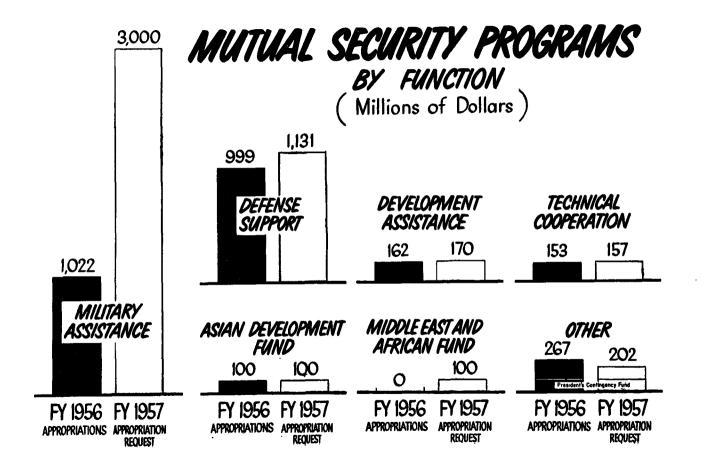
There is now need for replenishing the backlog. Requested nonmilitary appropriations for the various categories run only about 10

percent above last year's appropriations.

I would rather not get into this whole question of unexpended balances and backlogs at the present time, because we will go into that in some detail later. I merely wanted to mention that was a factor we have to take into consideration.

### RELATIONSHIP BETWEEN PROGRAM FOR LAST YEAR AND THIS YEAR

The next chart which I have shows, by function, the relationship between last year's appropriations and this year's appropriation requests.



You see this is simply that pie chart brought out so that you can see the difference in the size. You can see the change in the military approprietion, some increase in defense support, development assistance is practically the same, technical cooperation is practically the same.

Here is the Asian development fund, and the Middle East and African Fund, and these others, which are various United Nations

things and special activities.

It shows how this is where the great change is, over the previous year. Senator Green. May I ask, in connection with that, what is the

definition of this "other" down in the lower right-hand corner?

Mr. HOLLISTER. This "other" is the President's contingency fund. It is the United Nations technical assistance. It is the UNICEF, the United Nations Children's Emergency Fund. It is the total of a number of things of that kind.

### TECHNICAL ASSISTANCE

Senator Green. You mentioned technical assistance, but technical cooperation is just above.

Mr. Hollister. Technical assistance and technical cooperation are

the same thing, Senator. These are our programs.

I mentioned the United Nations technical assistance to which we That comes in here, all these different organizations, and a number of them that are hung onto this appropriation which are included in these categories.

It is all broken down in our presentation book.

Does that answer your question?

Senator Green. In other words, both of those 3 on the right are for technical assistance, but 1 is according to whether it goes through the United Nations or not?

Mr. HOLLISTER. Yes, sir, except this is the United Nations support,

and isn't anything like the total; it is a very small amount.

I think our United Nations contribution is \$15.5 million, whereas this is our technical cooperation spread among 50 or 60 countries of the world. That is the one which we administer, against this, which goes through other organizations to handle for us.

Senator Green. Is this "other" entirely that?
Mr. Hollister. No, sir. There are several others. As I say, \$100 million of that is the President's contingency, which you granted to this organization last year-

Senator Green. Is there any summary of this same information, by countries, showing how much technical assistance goes to definite

countries?

Mr. HOLLISTER. No, sir. It could be secured for you. We could get a complete breakdown from the United Nations of where they spend that money. We try to coordinate our technical assistance program with that of the United Nations so we don't duplicate.

Senator Green. You have no table showing the amount of technical assistance that reaches any definite nation from the United States?

Mr. Hollister. No, sir, neither directly nor indirectly. would would be very difficult. If 60-70 nations are contributing to the United Nations technical assistance, it would be pretty hard to break down what goes out of our funds to those nations and what comes out from other nations. That would be practically impossible. Of course, we have got a complete breakdown of our own technical cooperation program by countries. That appears on page ii of the second volume of our presentation books.

Senator Green. Then we have no way of knowing what the total

amount of a definite country is?

Mr. Hollister. We have in our own operations, but there is no way that I can see that we can trace our own money into particular countries when it is disbursed through the United Nations.

Senator Sparkman. Will the Senator yield to me?

Senator Green. I yield.

Senator Sparkman. Is it not true that we provide about 331/2 per cent of the U. N. technical assistance?

Mr. Hollister. It is more than that. I think it is over 50 percent. Senator Sparkman. Fifty. All right, then. And it is all pooled, is it not?

Mr. Hollister. That is correct; yes, sir.

Senator Sparkman. So when the U. N. program moves into a country and does a certain project there, we can say that we actually paid for about half of that.

Mr. Hollister. We could take that-

Senator Sparkman. Pooling.

Mr. Hollister. You are correct, Senator.

Senator Sparkman. By pooling.

Mr. Hollister. Except that is not quite the way it works, because the United Nations obviously gets all different kinds of currencies. The problem comes up, for instance, with the rubles that are contributed by Russia. It can only spend those in certain places.

Senator Green. But if Congress makes an appropriation for technical assistance in a specific country, it wants to know how much

we are paying toward that same purpose.

Mr. Hollister. Yes, sir. And all I can say is that Congress, over a number of years, has contributed to these international organizations; and while Congress—we check up the program, you can do it 

helpful information for the Congress if in this report it was stated

how much a definite country gets from the United States.

Mr. Hollister. We would be very glad to try to break it down. But there are a lot of operational costs in this.

Senator Green. Would you kindly provide such a table?

Mr. Hollister. I will do my best, but I will have to point out that in the United Nations technical assistance, or even in the other international organizations, it is going to be very difficult to trace the money which the United States gives any particular country except by saying that if the United States gives a certain percentage of the total funds, and there is a certain amount spent in the country, that some of that can be attributed to the United States.

Senator Green. Well, as nearly as you can do it practically. Mr. Hollister. Yes, sir. [See pp. 500 and 510.]

### MILITARY ASSISTANCE PROGRAM

Going on to the bottom of page 8, representatives of the Department of Defense will describe the military assistance program. As coordinator of the whole mutual security program, however, I want to comment on several points with reference to it.

First, in developing the military program in each country, the

entire situation in the country has been considered including:

(a) The risks confronting the country and the effect of such risks

on the security of the free world have been studied.

(b) The views of the Joint Chiefs of Staff, as to necessary defense force bases in each country, have been obtained.

(c) The nonmilitary program necessary to give support to the

defense effort in the country has been determined.

(d) We have appraised the capacity of the country to obtain and

pay for equipment and supplies which it needs.

(e) In each country, which cannot unaided maintain necessary forces and stability, our nonmilitary programs have been designed to maintain necessary defense strength and have taken account of the extent to which outside aid is essential to prevent injury to the recipient's economy.

(f) We have fully considered current United States foreign policy

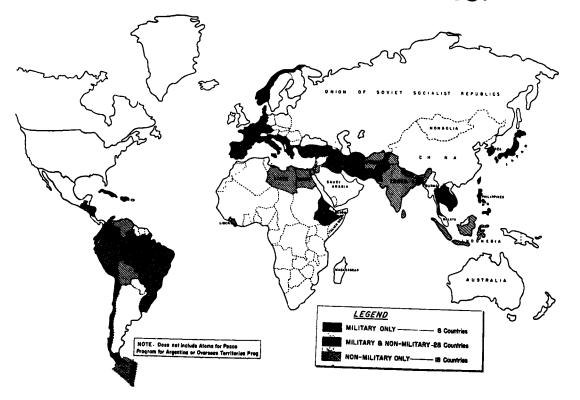
with reference to each country.

Second, the Defense Department witnesses will describe the new program to equip our allies with advanced weapons. About half a billion dollars is included in the program for an initial increment of advanced weapons for countries which can use such weapons effectively in the free world defense effort.

### COUNTRIES PARTICIPATING IN PROGRAM

Now I jump to the middle of page 10, and I will ask for chart 3.

# COUNTRIES PARTICIPATING-MSP in FY 1957



This is merely a world chart in which we indicate where our pro-

grams are going forward.

The red shows the military only. The pink, heavy pink, shows military and nonmilitary; and the lighter pink shows nonmilitary only,

which, of course, are generally the neutral countries.

Now, there is not included in this chart operations we have in dependent territories of a number of the countries of our allies. In other words, we have got a number of operations in Africa in dependent territories. We have them in British Honduras, Surinam, and Africa. We have not included something over 50 of them, and there are only 15 or 20 additional minor operations in territories of some of these other countries.

Senator Green. These figures simply show what we apply directly

there, and not what we apply through other agencies?

Mr. Hollister. Yes, sir; that is correct. Senator, I should point out when it comes to looking at the totals, it is minor. It does not affect very much the review of the whole picture.

Of course, a great amount, a good deal of the money that we spend, that is spent by the international organization, goes into operating costs, administrative costs, which, of course, you cannot allocate among recipient countries.

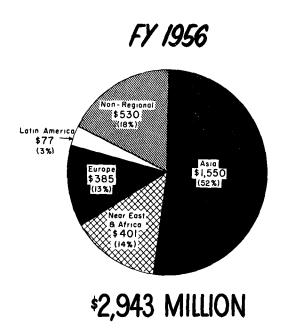
Beginning in the middle of page 10.

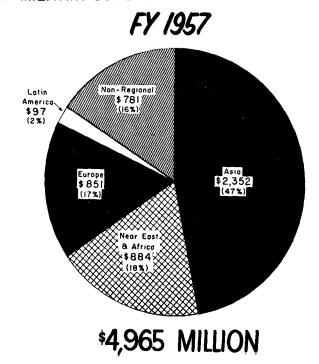
### MILITARY AND NONMILITARY PROGRAMS

The continuing emphasis on Asia is shown by my next charts (pie charts) which break down the fiscal year 1956 program and the fiscal year 1957 program, as planned, by areas.

### TOTAL MUTUAL SECURITY PROGRAM BY REGION

(MILITARY AND NON-MILITARY COMBINED)





Here you have the military and nonmilitary combined, broken down by areas, showing how much of the whole picture is the Asian picture: that the Near East and Africa will go up to some extent based on the requested appropriations for next year; that Europe has gone down very sharply; that the nonregional remains about the same; and that there is somewhat of an increase in Latin America.

I should point out these charts are based on the programs and not the appropriations. In other words, these are the programs, which do not necessarily agree exactly with the appropriations. If you find

a differentiation in the figures, that is the reason for it.

Senator Sparkman. Mr. Hollister, may I ask you a question. You said Europe went down appreciably. It looks to me like, from that chart, Europe goes up from 385 to 851; is that correct?
Mr. HOLLISTER. I beg your pardon. Yes, sir.

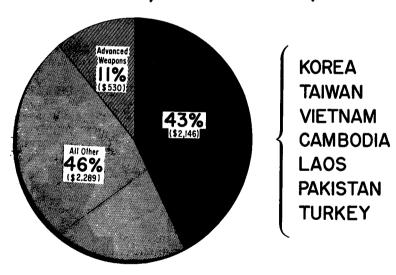
Senator Sparkman. Because it more than doubles.

Mr. Hollister. That is because of the military side. The economic side has gone way down, but the military side has gone way up.

Senator Sparkman. Yes.

Mr. Hollister. I should have said "up." Now, chart 5; will you give me that, please?

### TOTAL FY 1957 PROGRAM - MAJOR ALLOCATIONS Military and Non-Military



Total --- \$4,965 million

On page 11, I refer, right at the top of the page, to my next chart.

### HOW THE REQUEST IS TO BE DISTRIBUTED

In my next chart, I show where the great bulk of the requested money is to go, on a basis which perhaps will make the size of our request easier to understand. This chart shows that seven countriesall bordering on the periphery of the Communist bloc and all important from the strategy standpoint—get 43 percent of our proposed total program.

Now, this is the total program, both military and nonmilitary, and it shows how much goes into Korea, Taiwan, Vietnam, where there is an uneasy truce, and in Cambodia and Laos, which with Vietnam make the group of Chinese countries, and Pakistan and Turkey which,

as you know, again, border on the Soviet bloc.

Each of these countries maintains a defense establishment which is well beyond its capacity to support unassisted without serious injury to its economy. Each of these countries is important to the free world defense effort. An additional 11 percent of the total program is for the important advanced weapons program.

And, of course, some of that may be effective with respect to these

countries.

### DEFINING THE AREA

Senator Green. For clarification, may I ask another question? I understood you to say when I previously asked you a question that Turkey was included in the Near East.

Mr. Hollister. Yes, sir; from a regional point of view. Senator Green. Now here it is excluded, is it not?

Mr. Hollister. This is not—this is a world breakdown, and I pointed out how seven different countries take up almost half of the total money. That is all this is used for. This is without any reference to any particular area.

Senator Green. Well, you mean some part of your report includes

Turkey in the Middle East, and in some parts it is excluded?
Mr. HOLLISTER. No, sir. When it comes to talking about areas, it is always included in the Near East. Some of these countries are further east. As the Senator knows, the emphasis of our program has been shifted to Asia, and there is an additional emphasis on the Near East and Asia which has come up during the past year.

But what we are trying to point out from this chart is these countries where the military side is so enormously important, and then Pakistan is included for regional purposes when we are discussing a general—we discuss it in the Near East, south Asia, and Africa.

Senator Green. Then, sometimes it is included and sometimes not? Mr. Hollister. Well, Senator, unfortunately, this terminology is, I think, rather complicated. They sometimes talk about south Asia, and then they talk about certain countries. But if you are talking about the regional arrangement under which the State Department operates and we operate, Pakistan then is not in what we call the Far East. It is considered in the Near East, south Asia, and Africa, as part of that area.

Senator Green. Well, is Pakistan consistently included or ex-

cluded in the Middle East in this report of yours?

Mr. Hollister. It depends upon which way-if you are discussing the Middle East fund-

Senator Green. Certainly. That is the reason I am asking what the definition of the Middle East is.

Mr. HOLLISTER. The Middle East goes as far as Afghanistan, and does not include Pakistan in the Middle East fund.

Senator Green. Than Pakistan is included in the Far East?
Mr. HOLLISTER. That is included—no, it is in the Asian fund, not in the Far East; what we call the Asian fund.

I am sorry to say, last year—and I had no control over that presentation—they discussed an Asian fund, and the Asian fund was applicable to a number of countries which were outside of what is known as the Far East, but were in the area generally known as the Near East, south Asia, and Africa, but they called it an Asian fund, so it took in several countries which overlapped into that area.

Now this year, in getting a Middle East fund—

Senator GREEN. In this chart which we are discussing now, which you have just put up, I notice that the last two countries are Pakistan

and Turkev.

Mr. Hollister. This has no reference to areas at all, Senator, this particular chart. These countries drop into a certain category of countries which are on the periphery of the Soviet bloc. chart has nothing to do with the areas we have been discussing. merely a method of showing that certain countries in somewhat the same category with respect to the necessity of keeping big armies available, that those countries cost pretty near 50 percent of the total money we are asking to be appropriated for the coming year. But there is no reference whatsoever to an area there.

Does that make it clear?

Senator Green. Now I understand what you meant by it.

### ASSISTANCE TO HELP ALLEVIATE MILITARY THREAT

Mr. Hollister. It was merely picking the countries where the threat, you might say, is such that large armies have to be maintained, and the fact that those countries cannot possibly maintain those large armies under their own power, so we are not only in the position of having to give them military assistance, give them what used to be called direct-forces support, but which now is part of military assistance—in other words, soft goods, things in addition to ammunition and hardware of that kind-but we have also got to bolster up the economy of the country so that they can keep going, because if we didn't do that it wouldn't be much use having an army in a country which may collapse economically.

So we have the double burden of the military assistance and economic assistance to keep those countries operating properly on the

side of the free world.

We picked these out simply in order to point out that while we are operating in some 60 different parts of the world, 7 of them by themselves take almost 50 percent of the money.

Senator Green. Then these countries, and these countries only,

come under this classification; is that the idea?

Mr. Hollister. Well, that is a little hard to say. They are the ones that take the big amounts. We, of course, are helping the Philippines. The Philippines have an army. We have other countries where aid is given.

But I have tried to accentuate by this chart the reason why these

big, colossal sums of money are being asked for.

The taxpayers could very well say to the Members of Congress, "Why is it necessary to spend these great sums of money in the foreign field year after year?" And I am trying to point out by this chart how a few countries, where the military threat is so obvious, a few of those countries take almost 50 percent of the requirement. That is what the purpose of this chart is.

Senator Green. How would you define the classification which in-

cludes those countries and excludes others?

Mr. HOLLISTER. Each of these countries maintains a defense establishment which is well beyond its capacity to support unassisted without serious injury to its economy.

It shows seven countries on the periphery of the Communist bloc,

and very important from the strategy standpoint.

Now, we might refer to the-

Senator Knowland. Mr. Chairman. The CHAIRMAN, Senator Knowland?

Senator Knowland. I wonder if in the interest of orderly procedure—I know Mr. Hollister did say he would be glad to answer questions in the middle of his presentation—if we might not have the presentation completed, and then thrown open for any clarification. because I think some of those points may be clarified later in his prepared statement. And it is a normal procedure we follow in the committee of allowing a witness to make his statement and then throw the meeting open to questioning for any clarification any of us feel is necessary, following the complete presentation.

The CHARMAN. Well——
Mr. Hollister. I might point out now [referring to chart] to satisfy Senator Green, that Turkey, Pakistan, Cambodia, Vietnam, and Korea and Formosa are the countries which maintain large armies. In Korea hundreds of thousands of men are facing each other with only a few kilometers separating them. Formosa is a place where, as everyone knows, hostilities are always threatened, over those straits.

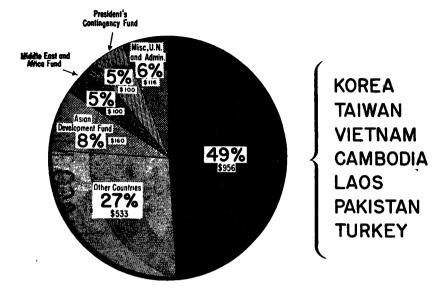
Iran is also somewhat in the same position, but the cost of the Iran military program is smaller, and that is why it was not thrown into that picture. It could be added, of course. Iran is only a recent joiner, it will be remembered, of the Baghdad Pact. It was not an

original member.

### NONMILITARY PROGRAM

I will move to the bottom of page 12 and bring up another chart. This is a breakdown for those same countries on the nonmilitary side. What I showed you before was a breakdown for those seven countries on the military and the economic side, showing that 43 percent of the total money which we are asking for in this program went to those countries.

### FY 1957 NON-MILITARY PROGRAM



Total Program --- \$1,965 Million

Now, even a greater percentage goes to those countries on the non-military side. Forty-nine percent goes to Korea, Taiwan, Vietnam, Cambodia, Laos, Pakistan, and Turkey, showing the necessity to build those countries up economically in order to give the armies backing.

I say again this chart is for the purpose of accentuating the fact that a few of those countries that are absolutely essential, strategically, for us to preserve take so much of the money.

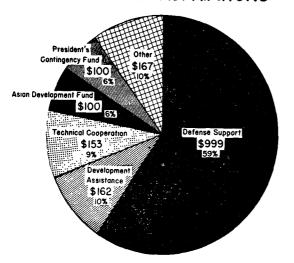
Now, we have some more charts which I will get to on page 13.

### ICA APPROPRIATIONS BY FUNCTION

These are the appropriations for the International Cooperation Administration by functions. We have been discussing areas. We are now going into functions, showing what the 1956 appropriation and what the requested appropriation for 1957 look like.

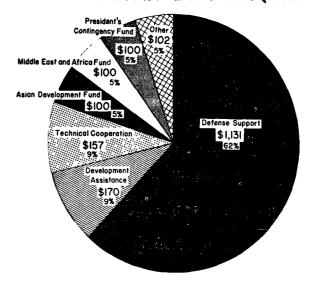
# ICA APPROPRIATIONS BY FUNCTION

### FY 1956 APPROPRIATIONS



\$1,681 Million

### FY 1957 APPROPRIATION REQUEST

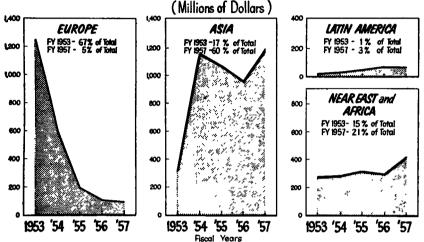


\$1,860 Million

Excludes programs of \$105 million to be financed from reappropriations or funds remaining available in 1957,

You will see there is not any great change in the picture. That is really the purpose of this chart—to show that from the 1956 appropriation what we are asking for for 1957 is not greatly different when it comes to the functions to which the money is applied. Defense support, of course, accounts for almost two-thirds of the money.

# NON-MILITARY PROGRAMS-BY AREA OBLIGATIONS THROUGH 1955, PROGRAM FOR '56 AND '57



NONMILITARY PROGRAMS BY AREA

Now, this is a distribution by regions since 1953. This is the non-military program since 1953. You can see how fast it has gone down in Europe. All that is left in Europe, practically, is Yugoslavia and Spain.

You see how it has gone up in Asia and dropped off; it went up here again; Latin America, a small program, leveling out here; and the Near East and Africa for 1957 is going up somewhat from 1956.

That gives you very graphically how we have moved out of the European picture and how it has been essential to get into Asia and, to a certain extent, in the Near East.

Now we get back to the regional thing, and it is complicated by the fact, which I should have understood was the purpose of your questioning at the beginning, when the Asian fund was created last year it was not limited to the Far East. It included some of the Asian countries which regionally were considered in the Near East, South Asia, and Africa.

So when we asked for a fund for the Near East and Africa this year, we limited it to those countries taken into the Asian fund except, I believe, Afghanistan is eligible under both funds.

### TERMINOLOGY

Senator Green. I do not want to be unfair, but I think there is a great deal of confusion all the time in the term "Middle East," but

I thought in a definite report of this kind we ought to find out how

you use it.

Mr. Hollister. I think there is a lot in what you say, Senator. It is like a lot of these things, historically this terminology grows up, and you get a history behind you. As a matter of fact, I thought very seriously this year it might be a wise idea to see if the legislation could be drafted with new terminology and a new approach; and then it seemed the time element was pretty short, and it seemed to me with perhaps a shorter congressional session than might be customary, it might be unwise to get into as complicated a thing as that.

But I really believe the whole legislation might well be rewritten at some time in the not too distant future, and make these things

much clearer.

Senator Green. I think so. But I thought since they had those terms "Middle East" and "Near East" which are used so vaguely—

Mr. Hollister. I am in entire agreement with you.

Senator Green (continuing). In general it would be a good idea,

in this report, to define them exactly.

Mr. Hollister. As I say, we thought of changing the thing materially; and then so many people are used to discussing it in a certain way, we thought it better to stick to the past with respect to this year's presentation, rather than to interpolate into a complicated enough program as it is, a number of new ideas.

But I think your general approach is a wise one, that at some time, perhaps, we ought to get away from techical terms which do not

mean what they say.

Senator Green. Anyway, we ought to have the same meaning all the way through the report.

Mr. Hollister. I think you are entirely correct.

Senator Smith. Mr. Hollister, is not the State Department geographical distribution the same as the one you are using now?

Mr. Hollister. That is correct.

Senator Smith. I think that is the basis of the reason for it, that

that is the State Department classification.

Mr. HOLLISTER. That is correct. But Senator Green very properly pointed out when we come to talk about the Asian fund and the Near Eastern fund, the dividing line between those two is not the same as the dividing line between the operating regions, and that does create a complication.

I know it took me quite a while to get it worked out, myself.

Senator SMITH. I just simply am referring to the fact that historically, as I remembered it from the beginning, in this foreign aid program we have used the State Department geographical breakdown on regions.

Mr. Hollister. That is correct.

Now I want to give some little discussion by regions, and I will start up at the top of page 14, Europe.

### MILITARY PROGRAMS

Senator Sparkman. Before you do that, Mr. Hollister, do you have a chart similar to this on military programs, by areas?

Mr. Hollister. I think the military people might have it.

...Mr. McGuire is here, and he says there will be one later. We can

prepare one very easily.

Senator Sparkman. I think it would be very interesting if we had a chart to compare with this, to see the similar shifts on military expenditure by areas.

Mr. Hollister. Yes, sir.

Senator Sparkman. How much control do you have on the military program?

Mr. Hollister. Well, that is a very interesting question.

Senator Sparkman. It is for us.

Mr. HOLLISTER. As coordinator it is the duty of my office to see to it that a program in a particular country is coordinated as between the military and the economic, and all programs in this whole field have to cross my desk.

I must give program approval. Now of course that does not mean that I try to decide how many planes go into a certain place or how

many regiments they should have or anything of that kind.

The Joint Chiefs of Staff are working on those matters all the time. Our MAAG representatives in the different countries are reporting on them. But when we plan this program we all sit down together, the military people, the State Department people and my people, and come to a general conclusion as to what the country ought to have or what we can give them.

If the military program is obviously out of line with what they could possibly handle economically, it is up to me to say so. And it is a difficult thing to define and I must say a not too easy thing to operate.

Luckily we have very good cooperation all the way across the board between all the departments and I think on the whole it is working very well.

Senator Mansfreed. Mr. Hollister, just exactly how much control do you have over the expenditure of military funds in the economic aid

program, aside from coordinating?

Mr. HOLLISTER. Well, if I did not approve a program it could not be spent. But obviously I have to pretty well rely on the military people as to what particular program they think is appropriate to a particular country.

Senator Mansfield. As I understand it then they have control of

the expenditures of funds appropriated.

All you do is give them an O. K.

Mr. HOLLISTER. On the program, that is right, yes. But I would have to approve the program and then they take charge of the execution of it. And if there is a program deviation I have to approve the program deviation from a program previously approved.

#### NATO DEFENSE EXPENDITURES

The top of page 14 we start discussing Europe.

For NATO countries, which, of course, exclude Greece and Turkey—you see, Senator Green, when we begin to discuss NATO we get into another complication because NATO countries are Europe, and Turkey and Greece are in NATO, and yet Turkey and Greece are not in Europe.

So we discuss NATO countries in Europe.

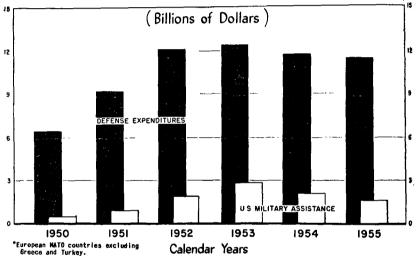
All the assistance is military in the NATO countries except Greece and Turkey. There is no economic aid now being given to European NATO countries except for a small amount of technical exchange, still in the European program.

I am hoping next year to have almost all technical exchange in European countries run through the European Productivity Agency, which is an arm of OEEC, on the theory that by giving them a little support and getting them underway, we can pull out completely

from all European economic activity.

I have two charts here which I think will be interesting to the committee which shows the relationship between the expenditures which our country has made with respect to NATO countries in the military field, and what those countries themselves have been spending.

### NATO DEFENSE EXPENDITURES and U.S. MILITARY ASSISTANCE



A great many people have the idea that we give large sums of money to these European countries for military help and they do not

do anything themselves.

These figures show what the countries spend themselves over the years, and this is what the United States military assistance has been to those countries over those same years, showing that while obviously our military assistance has been extraordinarily valuable, still the countries themselves do a substantial amount, and I think 85 percent is the figure which over those year they have carried of their total military expenditures.

### DEFENSE EXPENDITURES

Senator Knowland. Before you get away from that, Mr. Hollister, defense expenditures, does that include merely the military hardware

and pay for personnel and equipment, or does that include what you commonly term "defense support"?

Mr. HOLLISTER. Well, of course we give no defense support here. Senator Knowland. No; but it would make a great difference on your chart as to its relativity?

Mr. HOLLISTER. I do not think that included any of the economic

activity.

Now whether it had direct-forces support in it or not, I do not know.

It is the standard NATO definition but you would like to know what that is.

Senator Knowland. The chart means nothing unless we know what constitutes defense expenditure.

Mr. Hollister. What did you say, Senator?

Senator Knowland. A chart means very little in showing what United States military assistance is compared with the total unless we know what you are comparing it against.

Mr. Hollister. Defense expenditures under the NATO definition include outlays for troop pay and subsistence, ammunition, weapons,

airplanes, ships, training, construction, and so forth.

Senator Knowland. Do you include in it United States military assistance, the use of counterpart in United States military assistance or does that go into the defense expenditures of the foreign countries?

Mr. Hollister. Counterpart funds of the various countries that are used for military programs are included in their defense expenditures. In the 6 years covered by this chart, releases of counterpart funds for military use have totaled \$1.6 billion; defense expenditures by these countries totaled \$63 billion for the same period. Counterpart funds are tapering off and use for military purposes is low at present. The United States military assistance shown in this chart does not include counterpart funds since the countries have title to these funds. Of course, these funds are spent only with our approval.

Senator Knowland. I hope you will advise the military people that we will rather searchingly go into that problem on the amount of

counterpart funds.

Mr. HOLLISTER. I think the military people will be able to tell you

exactly what is covered on these various amounts.

Senator Sparkman. Before you remove that chart may I ask a question?

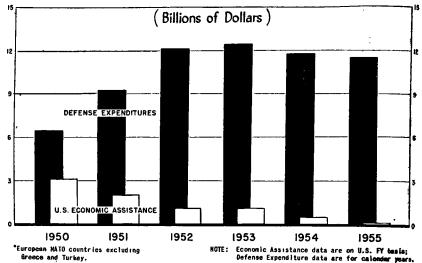
With reference to United States military assistance, does that include defense support?

Mr. Hollister. It does not include defense support.

Of course there is no defense support now in Europe with respect to the NATO countries.

Senator Sparkman. But there was during those years? Mr. HOLLISTER. There was.

### NATO DEFENSE EXPENDITURES and U.S. ECONOMIC ASSISTANCE



The next chart will show that, Senator, but the exact dividing line between what items are in there and what items are in the other I cannot say exactly except generally what are known as military items.

### MILITARY AID-WHAT IS INCLUDED

Senator Green. Does military as used include anything beside the Army?

Mr. Hollister. Oh, yes; Navy and Air Corps.

Senator Green. Navy, too? Mr. Hollister. Oh, yes.

Senator Green. How do you determine how to divide the expense of the Navy among those nations?

Mr. Hollister. It is whatever we send them.

Senator Green. Well, for instance, Greece and Turkey?

Mr. Hollister. You are asking now how we divide between Army, Navy, and Air Corps; what items we consider as items of military assistance given by our country? Senator Green. Yes.

Mr. Hollister. Well, I would have to have the military explain. They would be very glad to explain.

Senator Green. I mean the basis for it, not the amount. I want

to understand the charts.

Mr. Hollister. What did you say, Senator?

Senator Green. I wonder what "military" means as used on these

Does it include Army and Navy?

Mr. Hollister. It includes everything which we contribute to these countries in the military field-Army, Navy, and Air Corps.

Senator Green. It does not include our expenditures?

Mr. Hollister. Not ours. That does not include the cost of keeping our divisions in Germany; it does not include the cost of keeping our fleets there-none of that. This is the amount which goes into our contribution of military hardware to the NATO countries.

Senator GREEN. To their army and navy? Mr. HOLLISTER. That is right; yes, sir. No. I am not getting into that part of it.

This shows, with respect to these same defense expenditures of these countries, the size of our economic assistance, which includes the other items that are nonmilitary.

Exactly where the dividing line is I cannot tell, but all of this,

of course, would come in here.

It was up to \$3 billion in 1950. It has come down slowly and now it

is down to a pretty small figure.

Senator Sparkman. As I understand it, Greece and Turkey are not

included in these figures or in the other chart that you showed?

Mr. Hollister. Greece and Turkey are not in that picture.

are European NATO countries.

Senator Sparkman. Nor would West Germany be included any-

where in there?

Mr. Hollister. These figures do not include West Germany, since it was receiving aid in the earlier years and was contributing to the support of NATO forces stationed in Germany.

### MIDDLE EAST, AFRICA, AND ASIA

In the Middle East, Africa, and Asia—now, Senator, we are just discussing this in the world generally, not any particular regions,

and again it is a little complicated.

In the Middle East, Africa, and Asia, a large number of new nations have low levels of annual gross national productivity and living standards, when compared with the levels prevailing in North America and Western Europe.

As I have already pointed out, Korea, Laos, Vietnam, Cambodia, Taiwan, Turkey, and Pakistan are called on to maintain defense forces totally beyond their own capacity to support. These forces are needed to enable them to protect themselves from aggression and subversion, and thereby contribute to the security of the entire free world.

If these forces are to remain in existence, these nations must have assistance, both military and nonmilitary.

I am skipping over to the first main paragraph on page 17.

The free world, to maintain the nations of these areas as independent, stable nations, must participate in removing the conditions

which may lead to disorder and unrest.

This is important with respect to the nations which join with the free world in an active defense effort. It is also important in the case of the so-called uncommitted nations. With respect to these uncommitted nations, the free world attains an important objective, in the interest of world peace and security, if it succeeds in the important, but limited, task of keeping them genuinely free and independent.

In including these free nations in the mutual security program, our sole purpose is to help them to establish those conditions in which

truly free institutions can survive and prosper.

By this means, we believe that we promote the cause of world peace

and the security of the United States and the free world.

We have no wish to interfere with their traditions or their chosen way of life. We do hope to assist them so to advance and prosper that they cannot be overrun or weakened by Communist aggression or subversion.

I do not need to point out to this committee the dangers of the new Communist approach to the nations of the Middle East and Asia. For the time being, at least, the emphasis in the long-term Soviet campaign for world domination is on economic penetration.

We would be foolish not to recognize that Soviet offers of arms, loans, capital goods, and trade necessarily have attraction for peoples who have need of these things. If the free nations of Africa and the Middle East cannot obtain the assistance they need from the free world, they will look for that assistance elsewhere. Help they must have to make the advances which their people demand.

It is to the advantage of the free world to find means of providing that assistance. Otherwise, some of these nations may take a calculated risk of Communist penetration and loss of freedom, dangers which are inherent in acceptance of the offers of the Communist bloc.

The mutual security program is not an attempt to meet each Communist offer individually with a better offer. We cannot and should not be coerced into proposing projects beyond the capabilities of the nations which we are trying to help.

We believe that we must continue carefully planned programs, along tested lines, which our experience shows will really help our friends of the free world to achieve orderly economic progress.

### CHANGES IN PRESENTATION OF THE PROGRAM

Continuing to press programs of the type which have been carried on in the past does not mean that the mutual security program will not be improved as opportunities offer. Obviously, those in charge of the program must use ingenuity and imagination and must be prepared to adapt new methods and new approaches when experience shows that these are necessary.

Accordingly, the legislative proposals which are before you for consideration have been presented in the belief that the execution of our programs can and will be more effective if authority is given (1) to act with greater flexibility in meeting the problems which confront us, often suddenly, and (2) to deal with certain problems of a long-range character by making reasonable nonmilitary commitments which will extend beyond a single fiscal year.

The President has made recommendations to this effect in his message on the mutual security program. I shall discuss his recommendations later in detail. They are particularly important with respect to the volatile and unsettled conditions which now face us in the Middle East, Africa, and Asia.

### MIDDLE EAST AND AFRICA

It will be helpful if I mention various examples of the individual problems with which we must deal in the Middle East and Africa.

Turkey contributes substantial forces to NATO in one of the world's most strategic areas. At the same time Turkey is attempting a rapid

internal industrial and social development.

The combination of its defense and development efforts has resulted in serious economic strain. A stabilization program and proposals for economic reform have recently been formulated which will help to bring about financial balance.

Even if the program is properly carried out, Turkey will continue

to need outside assistance.

Despite the improvement in the situation of Iran and in its capital development as the result of resumed oil production, Iran for the time being continues to need help in meeting large military and develop-

ment expenditures.

If Egypt is to enable its growing population to gain the common decencies of life, she must undertake long-range development of its The high Aswan Dam is a project, long desired by this country, for the realizations of which we have offered help. However, Egypt cannot rely on long-range projects alone. The Egyptian

people must be helped in meeting immediate needs.

Our past programs there have been designed to assist the Egyptian Government to do this. It would not be be realistic to underestimate the problems which face us in working out sound methods of cooperating with Egyptian programs of development, but we must continue to consider sympathetically Egypt's present and future economic requirements. We should so frame our programs that we will be able to give effective help to Egypt as opportunities are offered to do so on a sound basis.

The other Arab States and Israel desperately need economic development. We have tried to assist in programs of development and

to alleviate the hard lot of the refugees from Israel.

In this area, beset with bitter controversies, development programs may assist in progress toward peace and stability. We have attempted to help on such programs, including regional projects relating to the Jordan River and the resettlement of refugees.

### ECONOMIC ASSISTANCE TO CEYLON

Senator Sparkman. Mr. Chairman, before we get away from this Middle East, Africa, and Asia situation, I wonder if I may ask this question.

Did you refer awhile ago at one point to Ceylon? Do we render military assistance to Ceylon?

Mr. Hollister. No. sir.

Senator Sparkman. Do we render economic assistance?

Mr. Hollister. Yes, sir; we have just started the program. Senator Sparkman. We have no military assistance approved in there at all?

Mr. Hollister. No, sir.

The CHAIRMAN. Before you proceed, the Chair has been notified that the Senate will insist on a live quorum at 12 noon today, and I am going to ask Senater Green to take over this committee as chairman when Mr. Hollister's testimony can be finished.

It may be that we can get permission to sit later in the day.

Senator Mansfield. Mr. Chairman, I was wondering if Mr. Hollister should not be permitted to conclude his testimony and then instead of going into executive session as we had planned the afternoon in the committee chambers, meet here in open session so that we may question him.

The CHAIRMAN. It is possible that we can get permission to sit at 2:30 here and that would be agreeable if it is agreeable with Mr.

Hollister.

Mr. Hollister. Whatever the committee wishes.

The CHAIRMAN. We would have to postpone the executive session this afternoon in the committee room.

Senator Green, will you take over please? Senator Green. Mr. Hollister, will you proceed?

### MIDDLE EAST AND AFRICAN FUND

Mr. Hollister. The unsettled conditions in the Middle East and Africa have led to the recommendation by the President that a special Middle East and Africa fund of \$100 million be established. To deal flexibly with the problems of the region, this fund would not be programed in advance or country by country. It would be limited to economic assistance and would be available during fiscal year 1957 to carry out special country and regional projects designed:

> (a) To solve pressing economic problems, and (b) To assist in maintaining peace and security.

Senator Smith. Mr. Hollister, I assume that has no relation to the

President's Asian fund?

Mr. Hollister. It is a similar fund to the Asian fund except to this extent: The Asian fund was listed as an Asian development fund. I think there is some difference in that emphasis, and the Asian fund, while it was not necessarily limited to regional activities, a good many Members of the Congress felt that certainly the regional approach should be considered first, whereas with the Middle East and African fund, there is not necessarily a limitation with respect to, or an emphasis, you might say, on regional activities, nor is it limited to development.

Senator SMITH. I meant to bring out merely it is a different fund. Mr. Hollister. It is a different fund entirely. And as Senator Green pointed out, the Asian fund and the Middle East fund where they come together is not the same place where the operating areas come together, thereby bringing real complications into our termi-

nology.

Because not specifically programed in advance, it could be used to meet suddenly arising and pressing situations without the necessity of diverting funds from soundly conceived country programs, pre-

sented to the Congress for approval as illustrative programs.

It will permit flexible and orderly planning and negotiation of constructive assistance in the area to be met from funds which have never been earmarked for any particular country, so that no country can reasonably feel that its own interests have suffered at the use of the funds for another country.

Among the considerations which have led to the recommendation of this fund are:

(1) The area is one where there is greatly increased Soviet

activity.

(2) We have every reason to expect in the future, as in the past, economic and political crises will arise in the countries of the

region, which will require urgent solution.

(3) Although the fund is not intended as one under which preference is to be given to regional projects, the existence of the fund might contribute to the solution of certain major problems in the area which affect more than one nation.

### ASIA AND THE FAR EAST

Pakistan deserves and needs our continued support. This nation is active in the defense of the Free World and lies in a position to take an important part in protecting free Asia. She is a member of SEATO and the Baghdad Pact. She is supporting a defense program beyond her capacity to maintain without our assistance.

In the interests of free world security, we should continue to assist both her defense efforts and her progress in building economic

strength.

India is greatly in need of economic development. Her second 5-year development plan is to start this year. We plan, as evidence of our long-standing friendship for the people of India, to help in this program of a free nation which is striving to maintain independence and to make the economic progress essential to its welfare.

In the Far East, economic programs are currently provided for Korea, Taiwan, the Philippines, Thailand, Vietnam, Cambodia, Laos,

and Indonesia.

The reasons, already advanced for assistance to the less developed countries of the Middle East, also apply to the Far East. In all of the countries mentioned above, except Indonesia, and in Japan,

military assistance programs are proposed.

Far Eastern aid, as indicated by the charts which I have shown you, means primarily essential support to Korea, Taiwan, Vietnam, Cambodia, and Laos. For all of them, substantial defense forces must be sustained. We have helped in this in past years through the provision of all types of aid.

These countries, with their very limited resources cannot meet the high costs of modern defense measures out of their own revenues. If we want to see these areas of the free world remain free of armed attack and internally stable, there is no alternative to giving them our

continued help in generous measure.

Korea and Vietnam have a great influx of refugees. They need foreign exchange to import consumer goods, industrial raw materials, machinery, and spare parts. The road to eventual self-support is a long one, but some progress in economic development to

raise living standards is being achieved.

Korea receives the largest amount, both military and nonmilitary aid, now being given under the mutual security program. Its army, largely made up of fighting men with experience in hard combat, has been created, and maintained, only by our continuing military aid and defense support.

We must be careful, in examining our programs of assistance in this country, that we avoid any loss of our position, won in the Far East by our stand with our Korean and United Nations allies against brutal Communist aggression.

# THE PRESIDENT'S FUND FOR ASIAN DEVELOPMENT

Congress, in 1955, authorized the appropriation of \$200 million for Asian Economic Development. Under this authorization, \$100 million was appropriated, the funds to be available for a 3-year period. The President has now asked that the remaining \$100 million be appropriated.

In other words, we are referring to this briefly because we know this committee is interested, but as far as the action of this committee

is concerned, no further authorization is necessary.

The authorization was granted last year, but the Appropriations Committee only appropriated \$100 million of the \$200 million which was authorized.

I want to refer briefly to this fund, although this committee has no occasion to take any action now inasmuch as the appropriation has been authorized.

Under the statute, preference was to be given to regional projects, although the possible need to use it for assistance to individual coun-

tries was also foreseen.

The first major regional project financed from this fund will be the Asian regional nuclear research and training center to be located in the Philippines. A team of scientists and experts from the Brookhaven National Laboratory is now making a comprehensive survey of the situation. Its report of detailed plans will be discussed with the Colombo Plan Committee in New Zealand next autumn.

Other regional projects under study involve communications, mineral resources development, production improvement, rail and water transportation, and various regional technical training centers.

During the current fiscal year, it has become necessary to fund development programs for Ceylon, Burma, and Afghanistan and to increase assistance for Indonesia. We indicated to you last year that this might be necessary. The necessary assistance has, initially

at least, been programed from the Asian fund.

These activities were deemed by the Secretary of State to be of major importance to the accomplishment of important United States foreign policy objectives in the Far East and Asia. Accordingly, use of a portion of the existing fund is contemplated for these bilateral projects.

Senator Sparkman. Was the whole \$200 million requested?

Mr. Hollister. And authorized; yes, sir.

Senator Sparkman. No; I mean before the Appropriations Committee.

Mr. Hollister. Yes, sir.

Senator Sparkman. But it is to stand over a 3-year period?

Mr. Hollister. Yes; and the Appropriations Committee said let's give you \$100 million. You probably cannot spend or commit that. Senator Sparkman. Did you spend \$100 million?

Mr. Hollister. No, sir.

Senator Sparkman. An additional appropriation is needed?

Mr. HOLLISTER. We think by the end of the year we will have some 50 or 60 million committed. It is rather difficult to work out these regional things, as you can well understand. It is not easy.

### LATIN AMERICA

Our technical cooperation programs in Latin America are continued at approximately the current scale under the fiscal year 1957 program.

Latin American countries, in their own development activities are pressing to achieve higher health, social and economic standards. Our technological assistance to their own self-reliant efforts have been cordially received. We believe that our programs are effective. In these programs, our representatives and those of the host government work closely together. They are supported by the contributions of both countries.

Development assistance in Latin America has been furnished only in special circumstances where severe economic crises have arisen. For

two countries such assistance is proposed for fiscal year 1957.

I have recently been in several Latin American countries. From my observation, I can report that objectives of the mutual security program are being achieved there with material success. The peoples of the host countries are pleased that the programs are cooperative efforts and both nations in each project contribute to the partnership spirit with which our people and the citizens of the host country are working together.

Such technical assistance programs cannot fail to be a source of genuine goodwill between the United States and Latin America, if this

partnership spirit continues.

### OTHER ACTIVITIES

Contributions to various projects handled through U. N. agencies are included in the fiscal year program for a total of \$27,800,000.

The amount is comparable in size to the programs of earlier years. Senator Sparkman. Do you have a breakdown of that as among the

various funds?

Mr. HOLLISTER. Yes, sir; we have that. It is in the presentation book, page 117 of the first volume of the unclassified presentation book.

Under "Technical Cooperation" there is 15,500,000 proposed for 1957 for the United Nations expanded program of technical assistance.

Senator Sparkman. I believe there are three items under the U. N. That would be the expanded program of technical assistance, \$15,500,000, United Nations Refugee Fund, \$2,300,000 and Children's Welfare, \$10 million.

Mr. HOLLISTER. The Children's Welfare Fund, that is right, though that does not go directly through the United Nations.

Senator Sparkman. That does not go through the U. N.? Mr. Hollister. It goes directly to that organization.

Senator Sparkman. Is that UNICEF?

Mr. HOLLISTER. That is UNICEF; that is \$10 million.

Senator Sparkman. We count it as a United Nations activity.

Mr. Hollister. Yes. I think it goes directly to the organization. Senator Sparkman. All right, sir, thank you.

Mr. Hollister. The United States as a matter of general policy has participated in these efforts of the United Nations (and also in those of other international organizations) to assist in solving certain problems of economic development and of meeting the difficulties of certain especially needy people, principally arising out of World War II.

We have felt that these problems are best handled through multilateral action. The current program also proposes support of (a) our own program for escapees from communism, (b) the work of the Intergovernmental Committee for European Migration—ICEM and (c) the program of paying ocean freight costs on donated relief

supplies.

### AUTHORITY FOR FLEXIBLE ACTION

This if the committee please, I think is enormously important. One year's experience in my present post convinces me that a major need is ample authority to deal flexibly with the problems which confront us. A review of our planning and program cycle will help indicate some of the difficulties we encounter in administering our program.

Normally, hearings before your committee take place in the late spring. Hearings before this committee, the House Foreign Affairs Committee and the two Appropriations Committees are thorough and complete. You scrutinize carefully, as you should, the illustrative

programs which we present.

These illustrative programs, when they reach you, have gone through a long process. For 2 months now, the country team in each country involved has been doing some preliminary work on the planning for the next year.

A great deal of the planning at the country level for the 1957 fiscal

year program was done more than a year ago.

In other words, what we are asking for now, they began to plan

more than a year ago.

A very thorough screening, in the field and in Washington, is given to these country programs, both military and economic. Requirements are examined to determine the time schedule upon which they should be met. Those least useful, and with least promise, or which can be postponed for a year or more, are eliminated.

Program requirements are reconciled with fiscal needs. The Bureau of the Budget thereafter participates in extended hearings on the programs as developed, as a result of which the programs are

further refined.

Thus, funds actually appropriated in the late spring or early summer of 1956 for the fiscal year 1957 program, will be based on plan-

ning which started in the spring of 1955.

Unhappily, the planning process does not end with appropriation of funds. The Congress frequently makes changes in the program. After appropriation, an extended further program review is needed to adjust the illustrative programs to congressional action and to changes in the general world or country situation, which may have taken place since the original planning of the program.

Time is required to make allocations of funds to particular programs and situations, in accordance with proper budget and fiscal control procedures. Usually this reprograming and allocation of funds is

completed in November or December of the calendar year in which the

appropriations are made.

In the case of military allocations, it may be even later. After that, we must begin the long process of negotiation with other governments and with contractors. These negotiations must be conducted carefully if we are to use appropriations wisely.

Country programs involving the sale of agricultural commodities under section 402 of the Mutual Security Act or involving loans as part

of the program take substantially longer than the average.

Generally, such agreements are on a "package" basis for the country

concerned.

Both the Defense Department and ICA find themselves on a very tight time schedule. Active negotiations generally take place between January and April. This is the time when the persons directing negotiations are involved in planning the presentation to you of the program for the next succeeding fiscal year.

### PRESENTATION OF THE PROGRAM

This presentation takes a great deal of careful preparation. The presentation documents which are presented for your examination each year are carefully written and checked. I am sure the committee has seen the size of these presentation books.

In addition to volume I, there are volumes II, III, and IV, which

are classified.

There is thorough interdepartmental coordination, clearance, and editing. The Defense and ICA program and operating staffs worked on the documents which you have before you for over 2 months, and for over 6 weeks have participated in the hearings before the House Foreign Affairs Committee. At the same time many of the same people have been supervising the obligation of fiscal year 1956 funds. The same people must deal with this work, for they alone have the necessary detailed knowledge of the program.

#### OBLIGATION OF FUNDS

One further factor complicates the situation. Section 106 of the appropriation act provides that not more than 20 percent of the funds made available under the act may be obligated or reserved during the last 2 months of the fiscal year.

This forces a rush to obligate funds before May 1, because with contracting operations scattered all over the world, it is hard to keep precise up-to-date records of obligations and we try to get more than 80 percent obligated before May 1 so that we will not violate by accident the 20 percent provision.

On the basis of this description of the cycle, I make the following

contentions:

First: Between (a) initial planning and (b) obligation of funds,

there is necessarily a lapse of time of 1½ years to 2 years.

In the meantime, new and substantial requirements can develop suddenly. Under present legislation we can meet these new requirements in two ways.

Funds may be transferred from other programs.

This involves abandonment or postponement of carefully planned programs of assistance which are badly needed.

We think this should be avoided.

2. The \$100 million President's contingency fund—under section 401 of the Mutual Security Act—gives us opportunity to meet special needs. We like to save this for the most vital contingencies, and to provide a needed backlog to cover important programs which may have to be abandoned if we do not meet the required quota of sales of surplus agricultural products under section 402 of the act. We can't be sure that we will reach this quota until late in the fiscal year.

The new Middle East and Africa fund —which has already been mentioned—would give us a much needed further available source of emergency funds for use in this one region, in which unexpected

need for funds is especially likely to arise.

Second. Under the planning and program cycle, the time given to us for obligation of mutual security funds is very short, indeed. You can appreciate the difficulties which confront us because 80 percent of the funds under the provisions of the present appropriation law, must be obligated during the first 10 months of the fiscal year.

#### RECOMMENDED IMPROVEMENTS

In the interest of sound management, economy in the use of tax money, and efficient conduct of the mutual security program, the present program recommends that the Congress adopt the following improvements:

(a) Make military assistance funds available on a "no year" basis in the manner now applicable to most other military procurement

funds expended by the Department of Defense.

(b) Permit at least 25 percent of nonmilitary Mutual Security Act funds to remain available until September 30 following the end of the fiscal year.

In other words, give us 15 months instead of a year to obligate

25 percent of the requests.

(c) Eliminate the provision of the appropriation act limiting obligations in May and June to 20 percent of appropriations for the year. This elimination follows logically if (b) above is adopted.

The existing provision causes unnecessary pressures for early obligation of funds. These pressures unavoidably lead to more hasty action than is desirable by moving the deadline for obligation of 80 percent of our funds forward from June 30 to April 30. This accomplishes no useful purpose, and the Appropriations Committees should relieve us of this harassing requirement.

### LEAD TIME

Senator Sparkman. Mr. Chairman, I know we are going to have a quorum call in just a matter of a few minutes so it is apparent Mr. Hollister is not going to be able to complete his statement.

There are 1 or 2 questions I would like to ask at this time.

Senator Green. He has kindly offered to answer questions and be interrupted.

Senator Sparkman. I realize that.

First, let me ask you this question relating to the testimony you have just given, and that is the lead time which is necessary.

You say that it will take from 1½ to 2 years to obligate funds after they are actually appropriated by Congress; is that right?

Mr. Hollister. No: I did not say that, Senator.

What I said was that from the time a program is planned to the time it is obligated can well be 2 years.

Senator Sparkman. That is right.

Mr. Hollister. You see we are beginning to plan now.

Senator Sparkman. That is right.

Mr. Hollister. Plan for 1958. We are asking for money for 1957. We are still operating under 1956 money but we have got to begin to plan the 1958 program now.

Senator Sparkman. But if Congress provides this \$4,960 million that you are asking for this year, that money naturally will not be spent or will not all be spent in the next fiscal year, will it?

Mr. Hollister. No. sir.

With respect to our money, the nonmilitary—when I say ours, I am referring to the ICA program, we are about current.

We have at the end of each year about a year's money available. Senator Sparkman. You mean a carryover of about a year?

Mr. Hollister. It averages a carryover of about a year. In the military it is about a 2-year carryover, the military side of it.

### SITUATION IN KOREA

Senator Sparkman. Yes.

Now there is one thing that I want to refer to on page 11, if I may. If you will refer to the bottom of the page there is a paragraph which you omitted from your reading that struck me as being rather important. It is the one that begins "In Korea."

You sav:

In Korea we are engaged in a war interrupted only by an armistice. General Lemnitzer and Mr. C. Tyler Wood have explained to you the vital character of our program in that country. Korea is an essential part of the free world's defense perimeter.

It cannot, without material help, maintain in the field the largest free-world army in Asia facing a strong enemy across a narrow demilitarized strip. That

enemy may strike in new aggression at any time.

Now are we to understand that there is actual danger of hostile

operations there?

Mr. Hollister. Senator, I did not leave that out because I did not think it was important. You understand I was merely trying to save the time of the committee.

Senator Sparkman. I am not offering any criticism for your leaving it out. I realize you have been taking us through the high spots.

But it did attract my attention and I wanted to ask you about it, particularly that last sentence.

Mr. Hollister. The enemy may strike in new aggression?

Senator Sparkman. That enemy may strike in new aggression at

any time.

Mr. Hollister. Well, Senator, there they sit near the 38th parallel which is, as you know, the armistice line crossing the 38th parallel and then coming south of it in other places.

Senator Sparkman. Yes.

Mr. Hollister. There are several hundred thousand troops just a few kilometers apart.

Now I think that none of us have complete confidence, I assume, in what may be tried by the Communists, the Communist Chinese and

the North Koreans.

If we had complete confidence that there would be no possible violation of the armistice and nothing further would happen there is no sense in keeping an Army there, but I do not think anybody seriously believes it would be wise to withdraw our troops and the South Korean Army from the armistice line.

We are pointing out as long as that situation exists there is cer-

tainly real danger of hostilities breaking out.

Senator Sparkman. In other words, you regard it as a real threat? Mr. Hollister. Certainly.

### THREAT OF AGGRESSION

Senator Sparkman. And isn't it true—of course you realize that throughout the country and you have heard some reverberations of it in Congress—that there is considerable opposition to this request this year.

Isn't it based upon the fact, as you point out here, that there is real

need existing in all of these areas?

Mr. Hollister. Yes, sir.

Senator Sparkman. And one thing that I wanted to point out, Mr. Hollister, was that through here in many different places you point out the danger that is lurking in many of these areas of the world?

Mr. Hollister. That is right.

Senator Sparkman. For instance, I think there was another place that you did not read and, therefore, did not give the emphasis to it that I felt probably it should be given, and that is the dangerous situation that prevails in the Middle East. There is real danger there; isn't there?

Mr. Hollister. Yes, sir.

Senator Sparkman. And in another place I know you pointed out that-well, here is one, Taiwan, right following Korea. Taiwan. that is Free China; isn't it?

Mr. Hollister. Yes, sir.

Senator Sparkman. Formosa?

Mr. Hollister. Formosa.

Senator Sparkman (reading):

Taiwan is confronted with large Communist forces and an impressive military buildup on the nearby China coast. The situation in the area is one in which the Communists may for their own reasons decide at any time to attack.

There is real danger there; isn't there?

Mr. Hollister. Yes, sir.

Senator Sparkman (reading):

The three southeast Asian countries are faced with the constant threat of military attack from the Communists.

And so down in southeast Asia there is a real threat; isn't there? Mr. Hollister. Yes, sir.

Senator Sparkman. And in many areas throughout the world! Mr. Hollister. Yes, sir.

Senator Sparkman. And is that the reason that we are asked to authorize this program continuing on the basis on which you have

requested it?

Mr. HOLLISTER. That is the great majority of the program and that is why I showed the committee these charts, showing that in seven countries alone nearly 50 percent of the money is needed not only for the military effort but for the economic effort which is necessary to keep those countries going behind substantial armies.

Senator Sparkman. Don't you believe, Mr. Hollister, that one of the most dangerous attitudes for us to accept in this country would be one that we are clear of these danger spots and that we can just fold

up and go home?

Mr. HOLLISTER. I think that would be a very dangerous policy to

Senator Sparkman. We have got to stay on the alert, haven't we?

Mr. Hollister. Yes, sir.

Senator Sparkman. Against these lurking dangers in many different parts of the world?

Mr. Hollister. Yes, sir, we have.

Senator Sparkman. Thank you, Mr. Chairman. Senator Green. Will you proceed, Mr. Hollister?

#### FLEXIBILITY

Mr. Hollister. Desirable flexibility can be provided in another way. Under the present law, the President is authorized to use (under sec. 401 of the Mutual Security Act creating the President's special fund), without regard to the provisions of the act itself or of any other statute for which funds are appropriated under the act:

(a) One hundred million dollars specifically appropriated

under the act for fiscal year 1956; and

(b) Fifty million dollars of any other Mutual Security funds

appropriated for fiscal year 1956.

We have, under this section, been able promptly to carry out the objectives of the act in a number of situations where necessary action would have been hampered by one or more of the normal restrictions of the Mutual Security Act of certain other statutes.

The ability to act rapidly in an unrestricted fashion will certainly prove to be even more necessary in the coming year. For this reason, the President has recommended increasing the scope of the important

authority provided by section 401 in three respects.

First: He has asked that the amount which is subject to the provisions of section 401 should be increased from \$150 million (composed of a specific appropriation for fiscal year 1956 under section 401 of \$100 million and any other \$50 million of fiscal year 1956 Mutual Security funds) to \$300 million (composed of a specific appropriation of \$100 million for fiscal year 1957, similar to that now in effect, and say other \$200 million of fiscal year 1957 Mutual Security funds).

If this change is made, about 6 percent of the total Mutual Security

funds requested for fiscal year 1957 would be subject to the high degree

of flexibility now afforded by section 401.

Second: The President has requested the authority for him to use not over \$100 million of the funds available under section 401 without regard to the requirements of any act, if the President determines that such use would be important to the security of the United States.

A somewhat similar exemption exists already under section 404 of the Mutual Security Act with respect to the fund provided under that section.

Third: He has also requested that the amount of funds which may be allocated under section 401 to any 1 nation in any 1 fiscal year be

increased from \$20 million to \$40 million.

At the present time in making transfers, the committee will understand not more than \$20 million can be transferred for the benefit of any one nation, no matter what the needs might be under section 401.

We are asking that that be doubled.

Approval of these three important changes would be a very valuable additional authority to move rapidly and flexibly in cases where rapid action is in the interests of the United States.

### LONG-TERM COMMITMENTS

Then we come to the long-term commitments.

The President has recommended that, for certain important nonmilitary projects, the President be authorized to make commitments for not over 10 years. The funds to fulfill such commitments would come from appropriations for nonmilitary purposes and would not exceed \$100 million in any one year.

The requested authority would enable the President to give to other nations assurance, backed by congressional approval, that an agreed United States contribution to the projects in question will be made annually within and subject to the limits of the appropriated funds

in fact made available annually.

Among the types of projects for which long-term commitment authority would be useful, are some for harbor development, road systems, inland waterways, power systems, communications systems, industrial and educational centers, each with its necessary related and subsidiary projects.

For such projects, to be carried out over several years, there is no

need of actual appropriations until just prior to the year in which

the funds are actually to be obligated.

But even if actual appropriations are not needed at an earlier date, it would be desirable for the President to be able to make commitments

to carry out the project.

The power requested to make commitments does not amount to binding contract authority, but a country or countries which such a project is to be carried on would have strong assurance that it is an undertaking for which the United States expects later to make appropriations.

Furthermore, cooperative financing, whether of other governments, or of private capital, may under such a commitment, be more easily secured and pulled together into a workable arrangement. difficult years ahead, this authority would be useful as an instrument of carrying out the long-range objectives of the Mutual Security Act.

As I have served in the House of Representatives, I can fully understand congressional reluctance to authorize such long-term arrangements. I know the desire of the Congress to review proposed mutual security appropriations annually and to check on the use of previously appropriated funds, before granting new appropriations.

I point out that this type of review will not wholly disappear under the proposal, inasmuch as annual appropriations must still be made

if the projects are to move forward.

The greatly increased Communist activity in the economic field has been a subject of concern to me and others working on the execution of our mutual security programs. I feel sure that this committee recognizes that the United States has greater need than ever of carrying out the objectives of the Mutual Security Act. As a democracy, we sometimes find it difficult to act rapidly.

Those procedures, designed to insure careful expenditures, in critical times may prove to be cumbersome. We do not ask for the powers given to Communist leaders to act on dictatorial flat without accountability to anyone and without thought to the wishes or needs of their

own people or to their crying need for consumer goods.

That is what makes it possible of course for the Communists today to move as fast as they do and make the kind of offers they do, because

they are not responsible to anyone.

We do, however, ask for limited powers to participate with friendly free nations in sound long-term planning for economic development

which will promote free world security.

Senator Sparkman. Mr. Hollister, before you leave the long-range commitments, I would like to ask a question or two, if I may, and I would like to preface my remarks by saying that I believe that a good sound program would be one that would permit the Government of the United States to deal with other nations on a basis that could plan a program that might extend over several years.

### TYPES OF PROJECTS INCLUDED IN LONG-TERM COMMITMENTS

What types of projects would be included in this long-range pro-

gram? Could you give us some suggestions?

Mr. Hollister. You would like to have me be specific. Of course I generalized there at the bottom of page 33 and at the top of page 34 we showed the types, harbor developments, road systems, inland waterways. Would you like to have me be specific?

Senator Sparkman. No; that is all right.

Mr. Hollister. That is the type of thing I was referring to.

Senator Sparkman. They would be limited to projects that would ordinarily require more than a year to complete; is that right?

Mr. Hollister. Several years, yes.

Senator Sparkman. Yes.

Mr. Hollister. Let's take the example of a project which might be a \$100 million project. Under the existing situation in order to be assured that that could go forward, you would have to take \$100 million right out of the next year's money, which would unbalance it very greatly if the project, we will say, took 8 years to complete, and you put up \$12,500,000 into it each year, which in our total program is not very large.

Now by appropriating \$12,500,000 each year for that over an 8-year period you get the \$100 million you used to complete the program, to complete the project, without unbalancing the program by putting it

all into 1 year.

By being able to make the kind of a commitment, which, unless conditions change very greatly, our Government would live up to, it is easier to get other money interested. For example, the International Bank, or even some other country or private money might join to finance a project, as a unified whole, and thus would really save our country a good deal of money in the long run.

### CAREFUL SURVEY NECESSARY

Senator Sparkman. I was going to ask if these projects would be set up after the most careful survey.

We would not rely necessarily just on the wish of some country that

a certain project be carried out?

Mr. HOLLISTER. I would not think of going into these things without the most detailed kind of study, Senator.

They ought to be studied from top to bottom and properly engi-

neered and properly planned.

Senator Sparkman. Will our own technicians be available for that purpose?

Mr. Hollister. I would think so.

Senator Sparkman. Would they be used for that purpose?

Mr. Hollister. I would think so.

Senator Sparkman. When we first gave economic development aid to India, as I recall, we went in on a basis of supporting a 5-year plan which India herself had worked out; isn't that true?

Mr. Hollister. Yes, sir; I think so.

Senator Sparkman. And our economic help to India, the economic development program has been in connection with her 5-year program?

Mr. HOLLISTER. Yes, sir.

Senator Sparkman. Would the countries be required under this long-range commitment to work out a program that might be comprehensive, that might include many different projects?

Mr. HOLLISTER. I do not think that this is contemplated. Senator Sparkman. Or would you take it project by project?

Mr. Hollister. It would be project by project. I do not think it is contemplated under this fund that a substantial amount should be committed to any particular country merely as a general fund to be used in a country's 5- or 6-year program or whatever programs they might have going forward. Rather, the idea is particular projects of a permanent nature which would take a good many years to complete.

# COOPERATION BY COUNTRIES RECEIVING AID

Senator Sparkman. Would the most careful study be made to determine the country's own maximum ability to carry on the project?

Mr. Hollister. In other words, you mean it would be very foolish for us to help a country with a project it cannot carry forward when the project is completed. Most decidedly.

Senator Sparkman. I was going to ask you that question. That is

really not what I meant, but that is certainly relevant. Mr. Hollister. I think that is terribly important.

Senator Sparkman. That would be the economic feasibility of the project, I would say.

Mr. HOLLISTER. Senator, I do not think we should go into any major projects unless we are pretty sure the country can carry them forward

when we get through.

Senator Sparkman. I was thinking more of building the project, financing the project itself. We certainly would want that country to do all that it could reasonably do within its reasonable economic ability?

Mr. HOLLISTER. In every one of our programs we try to do that, Senator. We do our best to see what the country's capabilities are and

supplement those capabilities rather than substitute for them.

Senator Sparkman. And is it to be inferred that we would make both, or rather our grants would be only such amount as would be absolutely necessary to finance the project?

Mr. HOLLISTER. I would think that would be so.

Senator Sparkman. In other words, that country would be supposed to underwrite it insofar as it could, first, by its own financing; and second, by international bank loans or private financing loans?

Mr. Hollister. I would prefer to see it done that way.

Senator Sparkman. And our help would be really the supplemental

requirement in order to complete it?

Mr. HOLLISTER. Yes, sir. You see, in major projects there is a great deal of local currency needed for labor and all the local activities which we always try to get the local country to do. Then the dollar exchange, which is needed to buy the materials that come from the outside which the country does not have available, that is what we supply generally in these things. That would be the way most of these would be worked out.

Senator Sparkman. You have submitted a proposed bill to the

House, haven't you?

Mr. HOLLISTER. Yes, sir.

Senator Sparkman. And the House committee has been working on it?

Mr. Hollister. It is working on it now; yes, sir. They have almost

completed their hearings.

Senator Sparkman. In the proposed legislation is the requirement written into the bill itself that the country do its utmost, or shall I say that we use our funds only in the way in which you have just described?

Mr. HOLLISTER. As it is drafted that is not in there. We would have to assume that would be the proper administration of the program.

Senator Sparkman. That would be the purpose for the administration of the act?

Mr. Hollister. Yes, sir.

### COMPLETION OF PROJECTS

Senator Sparkman. One complaint that I hear from time to time—I do not know how much truth there is but certainly the reports must have come to you—is of projects that we have started helping on that have been left incomplete, some of them relatively small perhaps, but nevertheless standing there as an incomplete project.

Do you get complaints of that kind?

Mr. HOLLISTER. There are complaints; yes, sir.

Senator Sparkman. You do read some of these articles sometimes that are rather sensational in dealing with things of that kind?

Mr. Hollister. Yes, sir; and there are some grounds for some of those complaints. Any program of this size that has been administered over a period of years, mistakes have been made. I am quite certain

I am going to make some.

I think it would be impossible to conduct anything of this kind without making some. I think that on some occasions the mutual security program has been accused unjustly because activities have been carried on by some country with money they have borrowed either from the Bank or from the Export-Import Bank over which this organization has no control, have not resulted quite the way the country had hoped.

And the people in the country and sometimes our own people, because it was an American project, they blame this organization because it has not been done properly, though the country itself is really to blame for not having the thing planned well enough or engineered

properly before they went into it.

I could give specific examples of that but I would rather do it in executive session because it involves perhaps a criticism of friendly countries for not having been as careful as they should have been

in their plans.

Senator Sparkman. I have long felt, Mr. Hollister, that the kind of an economic aid program that we ought to have in these underdeveloped countries where we want to help them to develop their own resources would be one that first would make maximum use of our own technicians and engineers, in determining what development should go in, in order to help that country to develop its own natural resources and provide employment for its people.

Then we ought to determine certainly the economic feasibility of this particular project, whether or not the country will be able to carry it on after it is completed and make it an economical undertaking.

And in the event it is so determined, then the method of financing. It seems to me the first element that ought to go into that is the contribution that the country can make from its own resources.

And then, second, would be the amount that it could economically, reasonably borrow to carry on. And then third would be the help that we might be required to step in with in the nature of a grant.

It seems to me that a program carried on like that over a long-range basis with the greatest of care would certainly pay dividends both to us and to the country in which it was being built. Is that the kind of program you have in mind?

Mr. HOLLISTER. I am in full agreement with you, Senator.

Senator Sparkman. And is that what is contemplated under this

long-range program?

Mr. HOLLISTER. That is contemplated generally. When it comes to the long-term side of the program, certainly what we are trying to do is to plan just as carefully as we can with all these projects.

I was not quite certain whether you were discussing this right to commit on a long-term basis or the long-term life of our aid program

around the world. There is a question.

Senator Sparkman. No. It seems to me that the right to make commitments for succeeding years would be a necessary part of this kind of a program.

Mr. HOLLISTER. I think it is when you have something specific and clear.

Senator Sparkman. That cannot be completed in 1 year?

Mr. Hollister. Yes, sir.

Senator Sparkman. I certainly would not like to see us start underwriting something that we had to leave half-completed as a monument to our fickleness.

Mr. HOLLISTER. Or folly.
Senator Sparkman. Or folly.
Thank you, Mr. Chairman.

Senator Green. Mr. Hollister, will you proceed?

### AGRICULTURAL COMMODITIES

Mr. Hollister. On page 35, at the bottom of the page, we begin a

section on agricultural commodities.

Section 402 of the 1954 act, as amended, directs that \$300 million be used in the current fiscal year to finance the export and sale for foreign currencies of surplus agricultural commodities produced in the United States.

To the extent that we cannot arrange for such exports in the full amount, the appropriations given to us for fiscal year 1956 cannot be used, the mutual-security program will be curtailed, and some carefully

planned projects must be postponed or abandoned.

We hope in the current fiscal year to reach the \$300 million mark. We have expended much effort and overcome many difficulties in doing as well as we have. We have tried to avoid injury to normal export markets for United States agricultural products or for the products of our allies and friends.

We recognize that such injury, if it did occur, would hurt the cause of free world security and stability. This limits our opportunities. The 50-50 shipping provision also sometimes makes the problem difficult, particularly our efforts to work out triangular arrangements.

We feel that, with the shift of the mutual-security economic program away from Europe to less developed, predominantly agricultural countries, we cannot hope to dispose of as much surplus products. Many of our present aid beneficiaries do not need and do not want them.

Accordingly, we request that, in fiscal year 1957, under section 402, we be required to accomplish minimum agricultural exports of only \$250 million.

That is as against the \$300 million which was required as of this

year.

We shall try to exceed this amount and to accomplish in even greater degree the purposes of section 402. However, we feel that useful projects should not be abandoned for lack of funds merely because an unduly high arbitrary goal under section 402 cannot be achieved.

#### LOANS

This Government's policy, under the mutual-security program, has been to encourage financing of nonmilitary activities by private investment or through public lending institutions. We have tried to prevent the program from interfering with projects appropriate for

the Export-Import Bank and the International Bank for Reconstruction and Development. We have continued this policy in formulating the program for fiscal year 1957. However, we have recognized that in many countries the requirements for capital for development cannot be met wholly from investment and public and private banking sources. This is true even in countries whose economies are sufficiently stable to indicate capacity for repayment.

We have tried to provide mutual security assistance in the form of loans rather than grants, wherever this could be done practically without injury to the attainment of mutual security objectives. Where loans might reasonably be available from the public lending institutions or needs could be met by private capital investment, we have

tried to see that our loans did not take their place.

We think that the use of mutual security loans has been fairly restricted to situations in which the transaction would not take place at all if the terms were not substantially more liberal than those avail-

able from the public lending institutions.

We have tried this year to increase the volume of loans actually made under the mutual security program. The results have been disappointing. The attempted substitution of a loan for a grant has frequently, either for political or economic reasons, been impracticable.

In many instances, we have found that loans could not be made in a manner which would carry out mutual security objectives unless the terms of such loans were so liberal as to constitute partial grants. We have made some loans which were pretty soft rather than making grants, and perhaps we have served no useful purpose in making the substitution in some cases.

It is a very difficult problem, this problem of loans in this field for many reasons which I can't go into in detail, but I simply want to say that we have tried our best to live up to what I know are the desires of the Congress and we put as much as possible on a loan basis, but it has been very difficult to get these loans in any substantial amount.

### UNEXPENDED BALANCES

The appropriate representatives of the Defense Department and of International Cooperation Administration will tell you in detail of the status of past appropriations and the unexpended balances of prior appropriations which we anticipate at the end of fiscal year 1956.

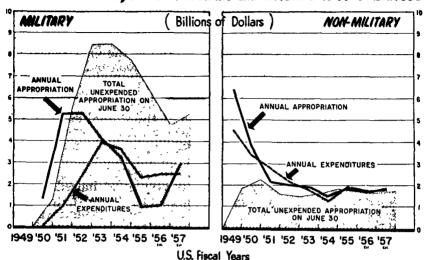
The President's budget estimate was that the balance of unexpended military assistance appropriations in the hands of the Department of Defense on June 30, 1956, would be about \$4.8 billion. This estimated balance, if reached, will represent a decline in the 2-year period since June 30, 1954, of about \$2.9 billion. It will be equal to about 2 years of military assistance expenditures at the average rate for the fiscal years 1955 and 1956.

On the nonmilitary side, on June 30, 1956, unexpended balances will probably be slightly lower than at the end of June 1955 and June 1954. The balance expected on June 30, 1956, will be \$1.9 billion, equal to about 1 year's expenditure at the average pate a second side.

about 1 year's expenditure at the average rate now prevailing.

I would like to ask for chart No. II here and I will skip the next half-page merely to show you on this chart how these things work out together.

# APPROPRIATIONS, EXPENDITURES and UNEXPENDED BALANCES



Here is the military program showing the annual appropriations and annual expenditures and the total unexpended appropriation on June 30.

The reason, very briefly—and the Department of Defense will go into it in more detail—why such an increase is being asked on the military side for this coming year in the way of appropriations is because for 2 years the expenditures greatly exceeded the appropriations.

You see, appropriations came down for 1955 and 1956 to about a billion each year, and the Defense Department's spending or the overseas military expenditures were running from about 2.4 to 2.5 billion.

The result is that much more was being spent than was being appropriated. Obviously the unexpended balance came down. And it is to reinstate that pipeline largely and then for a certain amount of new weapons that the increase in the military appropriation is asked for the coming year.

Now when you come to the nonmilitary side, you see how closely

everything runs along together.

The annual expenditures, annual appropriations, and unexpended

appropriations are almost identical.

In other words, we had at the end of each year just about a year's money available. But because of the long lead-time which is needed on the military side, they need about 2 years in annual expenditures to have on hand, whereas all we need on the nonmilitary side is about a year's expenditures on hand.

I think those two charts are rather significant.

About one-sixth of the new military assistance authorization requested is to purchase for those of our allies, who are able to use them effectively, advanced weapons of a type for which, in general, no previous appropriations have been made.

The balance of the requested authorization is equal to about 1 year of military assistance expenditures at current rates of actual deliveries

of weapons, supplies, and training.

The nonmilitary authorization requested is equal to about 1 year of expenditures at the current rate. Because, in general, nonmilitary expenditures have a much shorter lead time than nonmilitary items, ICA is able to operate on a much smaller backlog of appropriations than the Department of Defense.

The accompanying chart shows the rate of appropriations and of expenditures for the past few years, as well as the unexpended balances as they were affected by these appropriations and expenditures.

#### SUMMARY

I have tried to summarize my views of the mutual security program before you. I think that the need for this program is greater This is true both with respect to the military and than ever before. nonmilitary requests.

The opportunity for advancing the interest of the free world through the mutual security program is very great indeed.

I believe that evaluations of the past and studies of the future of this program should be made so that it may be improved and refined continuously. Thus the program can be made even more useful in future years. However, the program should go forward without interruption pending the completion of these studies.

We shall try to give you in the next 2 weeks a full explanation of every aspect of the 1957 program. We think that we have prepared a sound program and that the facts presented in evidence and in our

presentation books will convince you that this is so.

Thank you.

Senator Green. Thank you, Mr. Hollister, for your presentation. You have omitted certain parts of the written presentation but I assure you the committee will give consideration to all whether it was read or not.

(The prepared statement submitted by Mr. Hollister is as follows:)

### STATEMENT OF JOHN B. HOLLISTER, DIRECTOR, INTERNATIONAL COOPERATION ADMINISTRATION

Mr. Chairman, I appear before you in support of the President's request for authority for funds to carry out the mutual security program in fiscal year 1957. As the President has indicated in his message, and as the Secretary of State has already emphasized to you, this program is for our national security and defense and represents a vital part of the foreign policy of the United States.

Since my appointment as Director of the International Cooperation Administration in June 1955, I have visited each of the principal regions in which the mutual security program is carried out in cooperation with other nations of the free world. Through these visits, and by regional meetings with the chiefs of our missions in Europe, the Near East and Africa, and in Latin America, I have tried to gain firsthand knowledge of what the United States is attempting to accomplish in various parts of the world. I felt it particularly important to visit each far eastern country in which we have a mutual security program. because so much of our assistance is rendered there.

#### ADMINISTRATIVE ASPECTS OF THE PROGRAM

The mutual security program deals with both military and nonmilitary assistance. By virtue of the executive orders of last year the Director of ICA has two distinct roles in this program:

First, he is the head of International Cooperation Administration (ICA), a semiautonomous operating agency within the State Department. ICA develops and executes most of the nonmilitary phases of the program. Planning and general administrative work is done in Washington but the agency has several thousand representatives in the field. General policy guidance is received from the Secretary of State in all foreign policy matters.

Second, the Director of ICA is also coordinator of the whole program by special delegation of the Secretary of State. It is his duty under this delegation to

coordinate both military and nonmilitary elements of the program.

We feel that the problem of mutual security in each country is a single one in which all elements of the situation, including matters of foreign policy, as well as economic and military considerations, must be taken into account. In our planning we try to give due weight to all of these considerations and to frame in each country a balanced program which will effectively accomplish the objectives of the Mutual Security Act.

We adopt the same principle, that the program in all aspects is an integrated one, in presenting to you our requests for funds. We propose to outline to you the problems of each region and country through a team consisting of (1) the State Department Assistant Secretary (or his deputy) for the region under discussion, who can answer your questions on foreign policy; (2) a representative of the Department of Defense who will describe the military program; and (3) a regional representative of ICA who will outline the economic and non-military programs.

PROGRAM IS A BALANCED EFFORT TO MEET THE COMMUNIST CHALLENGE FOR DOMINA-TION AND TO BUILD UP THE STABILITY OF THE FREE WORLD

Since World War II the peace and security of the United States and of the rest of the free world has been threatened by the Communist efforts at world domination. Soviet Russia and the Communist bloc for nearly 10 years have been the principal problem confronting the United States and the free world. With this problem, all aspects of our Government are concerned in one way or another.

We have come to certain reasonably well-defined principles about the course we must follow in meeting the Communist threat to free world security—in the broadest sense of the word "security." Among these principles are the following:

- 1. We must keep up free world defenses. Although today Soviet tactics are placing greater emphasis on economic overtures to the less-developed nations, there is no indication that the danger of military aggression is over. Communist military buildup in many parts of the world and Communist distribution of modern weapons provide augmented dangers to the free world. Military assistance is still needed and defense efforts cannot be relaxed in any degree.
- 2. The new Communist activities in the economic field emphasize the importance of our continuing along constructive lines, on a well-planned basis, our programs of assistance to our allies, and other nations of the free world. Particularly is this important in Asia and the Middle East. The Soviet efforts to effect economic penetration of the free world must be taken seriously—and must lead us to be certain that our own programs are as well adapted to the needs of the countries we are trying to help as we can make them.
- 3. The constantly changing situation in the Middle East and Asia today makes it extremely important that the United States be in a position to move quickly and effectively to take advantage of all opportunities to advance the cause of world peace and free world independence and stability. Authority for increased flexibility of action is essential.

The fiscal year 1957 program has been formulated with these general principles in mind.

#### THE 1957 PROGRAM

New appropriated funds for fiscal year 1957 are sought in the total sum of \$4.86 billion. Of this total, \$3 billion is asked for military assistance; \$1,860 million is asked for the nonmilitary program. It should be recognized, however, that much of the nonmilitary program is closely related to the military aspects of the program.

The Department of Defense will administer and spend the military assistance funds. The International Cooperation Administration will administer the funds

for defense support, development assistance, and technical cooperation.

Military assistance, in addition to supplying equipment, weapons, training, spare parts and maintenance, now includes what was formerly called direct forces support—that is, the furnishing in kind of consumable supplies, services, commodities, etc. (with few exceptions purchased with dollars outside the recipient country) to military forces of our allies.

Defense support is the name applied to economic or nonmilitary assistance furnished to certain countries eligible for military assistance. As a result of previous congressional history, this designation is given to all forms of nonmilitary assistance (except technical cooperation) in those nations where there is a substantial military assistance program. Included in this category are (a) help for civilian-type projects and activities which directly support the military program of the country (for example, highways, ports, communications) and also (b) more general assistance which makes it possible for a country to maintain agreed force levels without seriously adverse economic or political consequences. General Lemnitzer and Mr. Tyler Wood have already given you, in describing the situation in Korea, a good example of the reasons for this type of defense support.

Defense support is primarily intended to support the defense effort of the recipient. However, an important aspect of this support in many countries is the contribution which it makes to building internal strength of the recipient coun-

try, thus helping to improve its living standards.

The term "development assistance" refers to all forms of aid, except technical cooperation, in countries where the United States has no substantial military-aid program. In certain countries with which no military agreements have been negotiated, such development assistance is provided to assist their economic de-

velopment in the interest of free world security and stability.

Technical cooperation programs involve the sharing of technical knowledge and skills with newly developing countries. Arrangements are made for certain of these programs by agreement of the United States Government and the individual "host" governments. Other similar programs are conducted through the United Nations, through the European Productivity Administration, and through the Organization of American States. Such technical cooperation usually involves one or more of the following features:

(1) Furnishing technicians from the United States (or other free nations) to serve in host countries to help their governments in developing resources

and in their economic and social development;

(2) Supporting these technicians, by providing from the United States supplies and equipment for demonstration purposes;

(3) Bringing foreign nationals to the United States (or other countries)

for training.

Exchange programs (for technical training consistent with the objectives of the mutual-security program) are carried on both in countries eligible for military assistance and in those which are not eligible. Contracts with American universities are the means by which a large number of these programs are executed. All programs are on a joint basis.

My first chart shows the distribution by functions of (a) fiscal year 1956 ap-

propriations, and (b) the requested fiscal year 1957 appropriations.

For military asistance a substantial increase is requested for 1957. This increase I will discuss a little later in discussing the course of military assistance appropriations in recent years. For the moment, I merely point out that in each of the last 2 years military assistance expenditures have run about \$1.5 billion above appropriations. The military assistance program thus has been operated largely on the backlog from prior-year appropriations. There is now need of replenishing the backlog. Requested nonmilitary appropriations for the various categories run about 10 percent above last year's appropriations.

My next chart (vertical bar chart) shows in graphic form by function the relationship between last year's appropriations and the fiscal year 1957 appro-

priation request.

To avoid possible misunderstanding of the appropriation figures which I have

mentioned, I call your attention to two matters :

(1) It is expected that there will be on hand on June 30, 1956, an unobligated balance of \$45 million in the Palestine refugee fund. We ask that this be carried over.

(2) On June 30, 1956, there will probably be an unobligated balance in the Asian fund of about \$60 million. This will be available for 2 more years. In fiscal year 1957 this sum in normal course will be programed and wholly obligated.

### THE MILITARY ASSISTANCE PROGRAM

Representatives of the Department of Defense will describe the military assistance program. As coordinator of the whole mutual-security program, however, I comment on several points with reference to it.

First. In developing the military program in each country, the entire situation in the country has been considered, including:

(a) The risks confronting the country and the effect of such risks on the security of the free world have been studied.

(b) The views of the Joint Chiefs of Staff, as to necessary defense force bases in each country, have been obtained.

(c) The nonmilitary program necessary to give support to the defense effort in the country has been determined.

(d) We have appraised the capacity of the country to obtain and pay for

equipment and supplies which it needs,

(e) In each country, which cannot unaided maintain necessary forces and stability, our nonmilitary programs have been designed to maintain necessary defense strength and have taken account of the extent to which outside aid is essential to prevent injury to the recipient's economy.

(f) We have fully considered current United States foreign policy with

reference to each country.

Second. The Defense Department witnesses will describe the new program to equip our allies with advanced weapons. About half a billion dollars is included in the program for an initial increment of advanced weapons for countries which can use such weapons effectively in the free world defense effort.

In the illustrative fiscal year 1957 program, about \$195 million worth of such weapons initially has been allocated to NATO countries. After further study of the best use of the weapons, the remaining money for advanced weapons will be allocated in the manner best adapted to advance free world and United States

security.

This advanced weapons program is important, first because it will provide our allies with weapons designed effectively to counter the growing potential of Communist forces, and second because it will serve to reassure our allies that we are doing all in our power to assist them in building a modern defense for This advanced weapons program is, of course, subject to our mutual benefit. improvement as opportunities offer.

### DISTRIBUTION OF PROGRAM BY REGIONS

The mutual security program for fiscal year 1957 covers all the most crucial parts of the free world. My next chart shows the distribution of military and nonmilitary programs over the map of the world. Aid given to certain dependent overseas territories of the larger nations has not been shown on this chart. To do so would unduly complicate it. Similarly, the countries in which our only activity is the atoms-for-peace program have not been shown.

The continuing emphasis on Asia is shown by my next charts (pie charts) which break down the fiscal year 1956 program and the fiscal year 1957 program (as planned) by areas. [I point out that these charts are based on programs, not appropriations. The figures of the two vary somewhat, because of appropriations available for more than 1 year, like the Asian fund, carryovers requested, and similar items.] The increase in Europe is due to the increase in the military assistance program there. No economic assistance is proposed for Europe, and a small amount of technical exchange in Spain, Yugoslavia, and Berlin.

In my next chart, I show where the great bulk of the requested money is to go, on a basis which perhaps will make the size of our request easier to under-This chart shows that seven countries (all bordering on the periphery stand. of the Communist bloc and all important from the strategy standpoint) get 43 percent of our proposed total program. Each of these countries maintains a defense establishment which is well beyond its capacity to support unassisted without serious injury to its economy. Each of these countries is important to the free world defense effort. An additional 11 percent of the total program is for the important advanced weapons program.

The countries involved in the 43 percent are all countries, where without major risk to free world security, we cannot avoid the proposed expenditures. A rundown of the countries will show that this is so.

In Korea, we are engaged in a war interrupted only by armistice. General Lennitzer and Mr. C. Tyler Wood have explained to you the vital character of our program in that country. Korea is an essential part of the free world's defense perimeter. It cannot, without material help, maintain in the field the largest free world army in Asia, facing a strong enemy across a narrow demilitarized strip. That enemy may strike in new aggression at any time.

Taiwan is confronted with large Communist forces and an impressive military buildup on the nearby China coast. The situation in the area is one in which the Communists may, for their own reasons, decide at any time to attack.

The three southeast Asian countries are faced with the constant threat of military attack from the Communists. Their newly established independent governments require substantial nonmilitary support to help them maintain essential defense forces and to preserve their independence and stability.

Turkey, one of our stoutest allies, is maintaining for the defense of the whole free world forces which its economy cannot sustain unassisted. These forces require modernization and maintenance of equipment already furnished. Nonmilitary aid to Turkey is also vital if it is to make progress desirable from the standpoint of free world security.

Pakistan is also maintaining substantial forces beyond its economic ability to sustain unaided. Assistance must continue, both by the provision of equipment

and in the form of nonmilitary support.

In the interest of free world security, no one of these countries should be permitted to go without the assistance, both military and nonmilitary, proposed in

the fiscal year 1957 program.

A further chart shows a similar breakdown of the fiscal year 1957 nonmilitary program. From this chart it shows that aid to the same seven countries I have just discussed accounts for 49 percent of the total nonmilitary program. A further 8 percent is for the Asian fund, some of which will undoubtedly be spent for the benefit of some of these countries. Turkey and Pakistan may benefit in some degree from the proposed Middle East and Africa fund, which accounts for 5 percent of the program. The President's contingency fund, under section 401, of the Mutual Security Act, takes up a further 5 percent of the nonmilitary pro-Our fair share of contribution to various United Nations programs, escapee and humanitarian programs, and necessary administrative expenses account for yet a further 6 percent. All these expenditures (27 percent) are matters of the highest priority from the standpoint of the interests of the United States.

I want, before moving on to a discussion of the program by regions, to show you two charts of the nonmilitary program by functions and by regions.

The first of these charts compares the fiscal year 1957, nonmilitary appropriation request with the fiscal year 1956 request. The amount sought is increased by \$180 million accounted for primarily by the proposed Middle East and Africa fund of \$100 million and the increased nonmilitary defense support required in certain Far East and Asian countries.

The second of these charts shows the distribution of our programs since 1953 by regions. The greatly decreased aid to Europe and the substantial increases in aid to Asia, the Middle East, and Africa are clearly demonstrated.

### DETAILED DISCUSSION BY REGIONS

Some discussion of the details of our programs in each of the major regions is desirable.

#### EUROPE

For NATO countries (excluding Greece and Turkey which for purposes of the program are treated with the Middle East) all assistance is military, other than

a relatively small program for European technical exchange.

As Department of Defense witnesses will show in detail, the fiscal year 1957 program in Europe (apart from the advanced weapons program) is largely one of providing spare parts and maintenance items and replacing equipment lost by attrition. Some modernization of equipment is being effected. The level of forces, the equipment of which we are assisting, remains substantially as in former years.

NATO country defense expenditures remain at high levels. European NATO countries spent on their defense establishments from 1949 to 1955 about \$72 billion. During this period the United States spent about \$10 billion for military aid to these NATO countries, who thus paid about 85 percent of their total

defense expenditures.

Our contribution has made possible the maintenance of forces significantly larger than those that the United States itself could have supported on the basis of the same expenditure.

Two charts have been prepared which show the relation of NATO European country (excluding Greece and Turkey) defense expenditures to United States military and economic assistance respectively (1950-55 calendar years). The first chart shows that NATO European country military expenditures have remained relatively stable since 1953, when United States military assistance reached its peak. United States military assistance to these countries since 1953 has declined.

The second chart shows that United States economic assistance to the European NATO countries had practically ceased by 1955.

#### WEST BERLIN, SPAIN, YUGOSLAVIA

In addition to the West European NATO countries, the program also deals with West Berlin, Spain, and Yugoslavia. These two countries and Berlin are not members of NATO or OEEC, although Spain and Yugoslavia are observers in OEEC. European recovery has not helped Spain and Yugoslavia as much as certain other Western European countries. They have standards of living which are below the levels of the more industrialized European nations. From each of them, however, there has been very real contribution to the security of the free world.

The air and naval bases furnished to the United States by Spain are of very real value.

Yugoslavia joined with Greece and Turkey in the Balkan Pact, has retained its independence and has stood aloof from the Communist bloc.

We cannot fail to continue our support to West Berlin-bastion of freedom,

and of the free world.

Defense support and related assistance are included in the fiscal year 1957 program for all three. Including \$1½ million for the European Productivity Agency, the program proposes nonmilitary aid in the total sum of \$90 million for Europe. This figure is reduced below the similar programs of fiscal years 1955 and 1956.

#### MIDDLE EAST, AFRICA, AND ASIA

In the Middle East, Africa, and Asia, a large number of new nations have low levels of annual gross national product and living standards, when compared with the levels prevailing in North America and Western Europe

with the levels prevailing in North America and Western Europe.

As I have already pointed out, Korea, Laos, Vietnam, Cambodia, Taiwan, Turkey, and Pakistan are called on to maintain defense forces totally beyond their own capacity to support. These forces are need to enable them to protect themselves from aggression and subversion, and thereby contribute to the security of the entire free world. If these forces are to remain in existence, these nations must have assistance, both military and nonmilitary.

The problem in these countries is not purely one of defense against aggression. It is a problem of security in a much broader sense. They, like most of the countries in the Middle East, Africa, and Asia have serious economic difficulties which may directly affect world stability and peace.

World War II wrought many changes throughout the area. New nations have been born, which cherish their newly won freedom. There is in these countries

a spirit of ardent nationalism.

These nations are striving to improve their internal conditions and to raise standards of living which are now austere in the extreme. They must fight poverty, disease, and unrest. Their peoples reasonably expect their leaders to provide them with opportunities for which their ancestors could never have hoped. Governments which do not make reasonable progress in satisfying these aspirations may easily prove to be insecure.

The free world, to maintain the nations of these areas as independent, stable nations, must participate in removing the conditions which may lead to disorder and unrest. This is important with respect to the nations which join with the free world in an active defense effort. It is also important in the case of the so-called uncommitted nations. With respect to these uncommitted nations, the free world attains an important objective, in the interest of world peace and security, if it succeeds in the important, but limited, task of keeping them genuinely free and independent.

In including these free nations in the mutual security program, our sole purpose is to help them to establish those conditions in which truly free institutions can survive and prosper. By this means, we believe that we promote the cause of world peace and the security of the United States and the free world.

We have no wish to interfere with their traditions or their chosen way of life. We do hope to assist them so to advance and prosper that they cannot be overrun or weakened by Communist aggression or subversion.

I do not need to point out to this committee the dangers of the new Communist approach to the nations of the Middle East and Asia. For the time being, at least, the emphasis in the long-term Soviet campaign for world domination is

on economic penetration.

We would be foolish not to recognize that Soviet offers of arms, loans, capital goods, and trade necessarily have attraction for peoples which have need of these things. If the free nations of Africa and the Middle East cannot obtain the assistance they need from the free world, they will look for that assistance elsewhere. Help they must have to make the advances which their people demand. It is to the advantage of the free world to find means of providing that assistance. Otherwise, some of these nations may take a calculated risk of Communist penetration and loss of freedom, dangers which are inherent in acceptance of the offers of the Communist bloc.

The mutual security program is not an attempt to meet each Communist offer individually with a better offer. We cannot and should not be coerced into proposing projects beyond the capabilities of the nations which we are trying We believe that we must continue carefully planned programs, along tested lines, which our experience shows will really help our friends of the free

world to achieve orderly economic progress.

Continuing to press programs of the type which have been carried on in the past does not mean that the mutual security program will not be improved as opportunities offer. Obviously, those in charge of the program must use ingenuity and imagination and must be prepared to adapt new methods and new ap-

proaches when experience shows that these are necessary.

Accordingly, the legislative proposals which are before you for consideration have been presented in the belief that the execution of our programs can and will be more effective if authority is given (1) to act with greater flexibility in meeting the problems which confront us, often suddenly, and (2) to deal with certain problems of a long-range character by making reasonable nonmilitary commitments which will extend beyond a single fiscal year.

The President has made recommendations to this effect in his message on the mutual security program. I shall discuss his recommendations later in detail, They are particularly important with respect to the volatile and unsettled condi-

tions which now face us in the Middle East, Africa, and Asia.

### MIDDLE EAST AND AFRICA

It will be helpful if I mention various examples of the individual problems

with which we must deal in the Middle East and Africa.

Turkey contributes substantial forces to NATO in one of the world's most strategic areas. At the same time Turkey is attempting a rapid internal industrial and social development. The combination of its defense and development efforts has resulted in serious economic strain. A stabilization program and proposals for economic reform has recently been formulated which will help to bring about financial balance.

Even if the program is properly carried out, Turkey will continue to need

outside assistance.

Despite the improvement in the situation of Iran and in its capital development as the result of resumed oil production, Iran for the time being continues

to need help in meeting large military and development expenditures.

If Egypt is to enable its growing population to gain the common decencies of life, she must undertake long-range development of its resources. The High Aswan Dam is a project, long desired by this country, for the realization of which we have offered help. However, Egypt cannot rely on long-range projects alone. The Egyptian people must be helped in meeting immediate needs.

Our past programs there have been designed to assist the Egyptian Government It would not be realistic to underestimate the problems which face us in working out sound methods of cooperating with Egyptian programs of development, but we must continue to consider sympathetically Egypt's present and future economic requirements. We should so frame our programs that we will be able to give effective help to Egypt as opportunities are offered to do so on a sound basis.

The other Arab States and Israel desperately need economic development. We have tried to assist in programs of development and to alleviate the hard lot of the refugees from Israel. In this area, beset with bitter controversies, development programs may assist in progress toward peace and stability. have attempted to help on such programs, including regional projects relating to the Jordan River and the resettlement of refugees.

#### MIDDLE EAST AND AFRICA FUND

The unsettled conditions in the Middle East and Africa have led to the recommendation by the President that a special Middle East and Africa fund of \$100 million be established. To deal flexibly with the problems of the region, this fund would not be programed in advance or country by country. It would be limited to economic assistance and would be available during fiscal year 1957 to carry out special country and regional projects designed:

(a) To solve pressing economic problems, and(b) To assist in maintaining peace and security.

Because not specifically programed in advance, it could be used to meet suddenly arising and pressing situations without the necessity of diverting funds from soundly conceived country programs, presented to the Congress for approval as illustrative programs. It will permit flexible and orderly planning and negotiation of constructive assistance in the area to be met from funds which had never been earmarked for any particular country, so that no country can reasonably feel that its own interests have suffered at the use of the funds for another country.

Among the considerations which have led to the recommendation of this fund

are:

(1) The area is one where there is greatly increased Soviet activity.

(2) We have every reason to expect in the future, as in the past, economic and political crises will arise in the countries of the region, which will require

urgent solution.

(3) Although the fund is not intended as one under which preference is to be given to regional projects, the existence of the fund might contribute to the solution of certain major problems in the area which affect more than one nation.

#### ASIA AND THE FAR EAST

Pakistan deserves and needs our continued support. This nation is active in the defense of the free world and lies in a position to take an important part in protecting free Asia. She is a member of SEATO and the Baghdad pact. She is supporting a defense program beyond her capacity to maintain without our assistance. In the interests of free world security, we should continue to assist both her defense efforts and her progress in building economic strength.

India is greatly in need of economic development. Her second 5-year development plan is to start this year. We plan, as evidence of our long standing friendship for the people of India, to help in this program of a free nation which is striving to maintain independence and to make the economic progress essential

In the Far East, economic programs are currently provided for Korea, Tajwan. the Philippines, Thailand, Vietnam, Cambodia, Laos, and Indonesia. The reasons. already advanced for assistance to the less developed countries of the Middle East, also apply to the Far East. In all of the countries mentioned above, except

Indonesia, and in Japan, military assistance programs are proposed.

Far Eastern aid, as indicated by the charts which I have shown you, means primarily essential support to Korea, Taiwan, Vietnam, Cambodia, and Laos. For all of them, substantial defense forces must be sustained. We have helped These countries. in this in past years through the provision of all types of aid. with their very limited resources, cannot meet the high costs of modern defensive measures out of their own revenues. If we want to see these areas of the free world remain free of armed attack and internally stable, there is no alternative to giving them our continued help in generous measure.

Korea and Vietnam, have a great influx of refugees. They need foreign exchange to import consumer goods, industrial raw materials, machinery and The road to eventual self-support is a long one, but some progress

in economic development to raise living standards is being achieved.

Korea receives the largest amount, both military and nonmilitary aid, now being given under the mutual security program. Its army, largely made up of fighting men with experience in hard combat, has been created, and maintained, only by our continuing military aid and defense support. We must be careful, in examining our programs of assistance in this country, that we avoid any loss of our position, won in the Far East by our stand with our Korean and United Nations allies against brutal Communist aggression.

### PRESIDENT'S FUND FOR ASIAN ECONOMIC DEVELOPMENT

Congress, in 1955, authorized the appropriation of \$200 million for Asian economic development. Under this authorization, \$100 million was appropriated, the funds to be available for a 3-year period. The President has now asked that the remaining \$100 million be appropriated. I want to refer briefly to this fund, although this committee has no occasion to take any action now inasmuch as the appropriation has been authorized.

Under the statute, preference was to be given to regional projects, although the possible need to use it for assistance to individual countries was also foreseen. The first major regional project financed from this fund will be the Asian regional nuclear research and training center to be located in the Philippines. A team of scientists and experts from the Brookhaven National Laboratory is now making a comprehensive survey of the situation. Its report of detailed plans will be discussed with the Colombo Plan Committee in New Zealand next autumn. Other regional projects under study involve communications, mineral resources development, production improvement, rail and water transportation, and various regional technical training centers.

During the current fiscal year, it has become necessary to fund development programs for Ceylon, Burma, and Afghanistan and to increase assistance for Indonesia. We indicated to you last year that this might be necessary. The necessary assistance has, initially at least, been programed from the Asian fund. These activities were deemed by the Secretary of State to be of major importance to the accomplishment of important United States foreign policy objectives in the Far East and Asia. Accordingly, use of a portion of the existing fund is contemplated for these bilateral projects.

#### LATIN AMERICA

Our technical cooperation programs in Latin America are continued at approximately the current scale under the fiscal year 1957 program. Latin American countries, in their own development activities are pressing to achieve higher health, social and economic standards. Our technical assistance to their own self-reliant efforts have been cordially received. We believe that our programs are effective. In these programs, our representatives and those of the host government work closely together. They are supported by the contributions of both countries.

Development assistance in Latin America has been furnished only in special circumstances where severe economic crises have arisen. For two countries such assistance is proposed for fiscal year 1957.

I have recently been in several Latin American countries. From my observation, I can report that objectives of the mutual security program are being achieved there with material success. The peoples of the host countries are pleased that the programs are cooperative efforts and both nations in each project contribute to the partnership spirit with which our people and the citizens of the host country are working together. Such technical-assistance programs cannot fail to be a source of genuine goodwill between the United States and Latin America, if this partnership spirit continues.

#### OTHER ACTIVITIES

Contributions to various projects handled through U. N. agencies are included in the fiscal year program for a total of \$27,800,000. The amount is comparable in size to the programs of earlier years.

The United States as a matter of general policy has participated in these efforts of the United Nations (and also in those of other international organizations) to assist in solving certain problems of economic development and of meeting the difficulties of certain especially needy people, principally arising out of World War II. We have felt that these problems are best handled through multilateral action. The current program also proposes support of (a) our own program for escapees from communism, (b) the work of the Intergovernmental Committee for European Migration (ICEM) and (c) the program of paying ocean freight costs on donated relief supplies.

#### AUTHORITY FOR FLEXIBLE ACTION

One year's experience in my present post convinces me that a major need is ample authority to deal flexibly with the problems which confront us. A

review of our planning and program cycle will help indicate some of the difficulties we encounter in administering our program.

Normally, hearings before your committee take place in the late spring. Hearings before this committee, the House Foreign Affairs Committee and the two Appropriations Committees are thorough and complete. You scrutinize care-

fully, as you should, the illustrative programs which we present.

These illustrative programs, when they reach you, have gone through a long process. For two months now, the country team in each country involved has been doing some preliminary work on the planning for the next year. A great deal of the planning at the country level for the 1957 fiscal year program was done more than a year ago. A very thorough screening, in the field and in Washington, is given to these country programs, both military and economic. Requirements are examined to determine the time schedule upon which they should be met. Those least useful, and with least promise, or which can be postponed for a year or more, are eliminated. Program requirements are reconciled with fiscal needs. The Bureau of the Budget thereafter participates in extended hearings on the programs as developed, as a result of which the programs are further refined. Thus, funds actually appropriated in the late spring or early summer of 1956 for the fiscal year 1957 program, will be based on planning which started in the spring of 1955.

Unhappily, the planning process does not end with appropriation of funds. The Congress frequently makes changes in the program. After appropriation, an extended further program review is needed to adjust the illustrative programs to Congressional action and to changes in the general world or country situation, which may have taken place since the original planning of the pro-Time is required to make allocations of funds to particular programs and situations, in accordance with proper budget and fiscal control procedures. Usually this reprograming and allocation of funds is completed in November or December of the calendar year in which the appropriations are made. case of military allocations, it may be even later. After that, we must begin the long process of negotiation with other governments and with contractors. These negotiations must be conducted carefully if we are to use appropriations Country programs involving the sale of agricultural commodities under section 402 of the Mutual Security Act or involving loans as part of the program take substantially longer than the average. Generally, such agreements are on a "package" basis for the country concerned.

Both the Defense Department and ICA, find themselves on a very tight time schedule. Active negotiations generally take place between January and April. This is the time when the persons directing negotiations are involved in planning the presentation to you of the program for the next succeeding fiscal year.

This presentation takes a great deal of careful preparation. The presentation documents which are presented for your examination each year are carefully written and checked. There is thorough interdepartmental coordination, clearance, and editing. The Defense and ICA program and operating staffs worked on the documents which you have before you for over 2 months, and for over 6 weeks have participated in the hearings before the House Foreign Affairs Committee. At the same time many of the same people have been supervising the obligation of fiscal year 1956 funds. The same people must deal with this work, for they alone have the necessary detailed knowledge of the program. One further factor complicates the situation. Section 106 of the Appropriations Act provides that not more than 20 percent of the funds made available under the act may be obligated or reserved during the last 2 months of the fiscal year. This forces a rush to obligate funds before May 1, because with contracting operations scattered all over the world, it is hard to keep precise up-to-date records of obligations and we try to get more than 80 percent obligated before May 1 so that we will not violate by accident the 20-percent provision.

On the basis of this description of the cycle, I make the following contentions: First. Between (a) initial planning and (b) obligation of funds, there is necessarily a lapse of time of 1½ years to 2 years. In the meantime, new and substantial requirements can develop suddenly. Under present legislation we can meet these new requirements in two ways:

1. Funds may be transferred from other programs. This involves abandonment or postponement of carefully planned programs of assistance which are badly needed. We think this should be avoided.

2. The \$100 million President's contingency fund (under section 401 of the Mutual Security Act) gives us opportunity to meet special needs. We like to save this for the most vital contingencies, and to provide a needed

backlog to cover important programs which may have to be abandoned if we do not meet the required quota of sales of surplus agricultural products under section 402 of the act. We can't be sure that we will reach this quota until late in the fiscal year.

The new Middle East and Africa Fund (which has already been mentioned) would give us a much needed further available source of emergency funds for use in this one region, in which unexpected need for funds is especially likely

to arise

Second. Under the planning and program cycle, the time given to us for obligation of mutual-security funds is very short indeed. You can appreciate the difficulties which confront us because 80 percent of the funds, under the provisions of the present appropriation law, must be obligated during the first 10 months of the fiscal year. In the interest of sound management, economy in the use of tax money, and efficient conduct of the mutual-security program, the present program recommends that the Congress adopt the following improvements:

(a) Make military assistance funds available on a no-year basis in the manner now applicable to most other military-procurement funds expended

by the Department of Defense;

(b) Permit at least 25 percent of nonmilitary Mutual Security Act funds to remain available until September 30 following the end of the fiscal year

(i. e., 15 months' funds);

(c) Eliminate the provision of the appropriation act limiting obligations in May and June to 20 percent of appropriations for the year. [This elimination follows logically if (b) above is adopted.] The existing provision causes unnecessary pressures for early obligation of funds. These pressures unavoidably lead to more hasty action than is desirable by moving the deadline for obligation of 80 percent of our funds forward from June 30 to April 30. This accomplishes no useful purpose, and the Appropriations Committees should relieve us of this harrassing requirement.

Desirable flexibility can be provided in another way. Under the present law, the President is authorized to use (under section 401 of the Mutual Security Act creating the President's special fund), without regard to the provisions of the act itself or of any other statute for which funds are appropriated under

the act:

(a) \$100 million specifically appropriated under the act for fiscal year 1956; and

(b) \$50 million of any other mutual security funds appropriated for fiscal year 1956.

We have, under this section, been able promptly to carry out the objectives of the act in a number of situations where necessary action would have been hampered by one or more of the normal restrictions of the Mutual Security Act and of certain other statutes.

The ability to act rapidly in an unrestricted fashion will certainly prove to be even more necessary in the coming year. For this reason, the President has recommended increasing the scope of the important authority provided by

section 401 in three respects.

First. He has asked that the amount which is subject to the provisions of section 401 should be increased from \$150 million (composed of a specific appropriation for fiscal year 1956 under section 401 of \$100 million and any other \$50 million of fiscal year 1956 mutual security funds) to \$300 million (composed of a specific appropriation of \$100 million for fiscal year 1957, similar to that now in effect, and any other \$200 million of fiscal year 1957 mutual security funds). If this change is made, about 6 percent of the total mutual security funds requested for fiscal year 1957 would be subject to the high degree of flexibility now afforded by section 401.

Second. The President has requested the authority to him to use not over \$100 million of the funds available under section 401 without regard to the requirements of any act, if the President determines that such use would be important to the security of the United States. A somewhat similar exemption exists already under section 404 of the Mutual Security Act with respect to

the fund provided under that section.

Third. He has also requested that the amount of funds which may be allocated under section 401 to any one nation in any one fiscal year be increased

from \$20 million to \$40 million.

The approval of these three important changes would be a very valuable additional authority to move rapidly and flexibly in cases where rapid action is in the interests of the United States.

#### LONG-TERM COMMITMENTS

The President has recommended that, for certain important nonmilitary projects, the President be authorized to make commitments for not over 10 years. The funds to fulfill such commitments would come from appropriations for nonmilitary purposes and would not exceed \$100 million in any 1 year.

The requested authority would enable the President to give to other nations assurance, backed by congressional approval, that an agreed United States contribution to the projects in question will be made annually within and subject to

the limits of the appropriated funds in fact made available annually.

Among the types of projects for which long-term commitment authority would be useful, are some for harbor development, road systems, inland waterways, power systems, communications systems, industrial and educational centers, each with its necessary related and subsidiary projects. For such projects, to be carried out over several years, there is no need of actual appropriations until just prior to the year in which the funds are actually to be obligated. But even if actual appropriations are not needed at an earlier date, it would be desirable for the President to be able to make commitments to carry out the project. The power requested to make commitments does not amount to binding contract authority, but a country or countries where such a project is to be carried on would have strong assurance that it is an undertaking for which the United States expects later to make appropriations.

Furthermore, cooperative financing, whether of other governments, or of private capital, may under such a commitment, be more easily secured and pulled together into a workable arrangement. In the difficult years ahead, this authority would be useful as an instrument of carrying out the long-range objectives

of the Mutual Security Act.

As I have served in the House of Representatives, I can fully understand congressional reluctance to authorize such long-term arrangements. I know the desire of the Congress to review proposed mutual-security appropriations annually and to check on the use of previously appropriated funds, before granting new appropriations. I point out that this type of review will not wholly disappear under the proposal, inasmuch as annual appropriations must still be made if the projects are to move forward.

The greatly increased Communist activity in the economic field has been a subject of concern to me and others working on the execution of our mutual-security programs. I feel sure that this committee recognizes that the United States has greater need than ever of carrying out the objectives of the Mutual Security Act. As a democracy, we sometimes find it difficult to act rapidly. Those procedures, designed to ensure careful expenditures, in critical times may prove to be cumbersome. We do not ask for the powers given to Communist leaders to act on dictatorial flat without accountability to anyone and without thought to the wishes or needs of their own people or to their crying need for consumer goods. We do, however, ask for limited powers to participate with friendly free nations in sound long-term planning for economic development which will promote free world security.

#### AGRICULTURAL COMMODITIES

Section 402 of the 1954 act, as amended, directs that \$300 million be used in the current fiscal year to finance the export and sale for foreign currencies of surplus agricultural commodities produced in the United States. To the extent that we cannot arrange for such exports in the full amount, the appropriations given to us for fiscal year 1956 cannot be used, the mutual security program will be curtailed, and some carefully planned projects must be postponed or abandoned.

We hope in the current fiscal year to reach the \$300 million mark. We have expended much effort and overcome many difficulties in doing as well as we have. We have tried to avoid injury to normal export markets for United States agricultural products or for the products of our allies and friends. We recognize that such injury, if it did occur, would hurt the cause of free world security and stability. This limits our opportunities. The 50-50 shipping provision also sometimes makes the problem difficult, particularly our efforts to work out triangular arrangements.

We feel that, with the shift of the mutual security economic program away from Europe to less developed, predominately agricultural, countries, we cannot hope to dispose of as much surplus products. Many of our present aid beneficiaries do not need and do not want them. Accordingly, we request that, in

fiscal year 1957 under section 402, we be required to accomplish minimum agricultural exports of only \$250 million. We shall try to exceed this amount and to accomplish in even greater degree the purposes of section 402. However, we feel that useful projects should not be abandoned for lack of funds, merely because an unduly high arbitrary goal under section 402 cannot be achieved.

#### LOANS

This Government's policy, under the mutual security program, has been to encourage financing of nonmilitary activities by private investment or through public lending institutions. We have tried to prevent the program from interfering with projects appropriate for the Export-Import Bank and the International Bank for Reconstruction and Development. We have continued this policy in formulating the program for fiscal year 1957. However, we have recognized that in many countries the requirements for capital for development cannot be met wholly from investment and public and private banking sources. This is true even in countries whose economies are sufficiently stable to indicate capacity for repayment.

We have tried to provide mutual security assistance in the form of loans rather than grants, wherever this could be done practically without injury to the attainment of mutual security objectives. Where loans might reasonably be available from the public lending institutions or needs could be met by private capital investment, we have tried to see that our loans did not take their place. We think that the use of mutual security loans has been fairly restricted to situations in which the transaction would not take place at all if the terms were not substantially more liberal than those available from the

public lending institutions.

We have tried this year to increase the volume of loans actually made under the mutual security program. The results have been disappointing. The attempted substitution of a loan for a grant has frequently, either for political or economic reasons, been impracticable. In many instances, we have found that loans could not be made in a manner which would carry out mutual security objectives, unless the terms of such loans were so liberal as to constitute partial grants. We have made some loans which were pretty "soft" rather than making grants, and perhaps we have served no useful purpose in making the substitution in some cases.

#### UNEXPENDED BALANCES

The appropriate representatives of the Defense Department and of International Cooperation Administration will tell you in detail of the status of past appropriations and the unexpended balances of prior appropriations which we anticipate at the end of fiscal year 1956.

The President's budget estimate was that the balance of unexpended military-assistance appropriations in the hands of the Department of Defense on June 30, 1956, would be about \$4.8 billion. This estimated balance, if reached, will represent a decline in the 2-year period since June 30, 1954, of about \$2.9 billion. It will be equal to about 2 years of military-assistance expenditure at the average rate for the fiscal years 1955 and 1956.

On the nonmilitary side, on June 30, 1956, unexpended balances will probably be slightly lower than at the end of June 1955 and June 1954. The balance expected on June 30, 1956, will be \$1.9 billion, equal to about 1 year's expendi-

ture at the average rate now prevailing.

About one-sixth of the new military-assistance authorization requested is to purchase for those of our allies who are able to use them effectively advanced weapons of a type for which, in general, no previous appropriations have been made. The balance of the requested authorization is equal to about 1 year of military-assistance expenditures at current rates of actual deliveries of weapons supplies, and training. The nonmilitary authorization requested is equal to about 1 year of expenditures at the current rate. Because, in general, nonmilitary expenditures have a much shorter lead time than nonmilitary items, ICA is able to operate on a much smaller backlog of appropriations than the Department of Defense. The accompanying chart shows the rate of appropriations and of expenditures for the past few years, as well as the unexpended balances as they were affected by these appropriations and expenditures.

balances as they were affected by these appropriations and expenditures.

I have tried to summarize my views of the mutual-security program before you. I think that the need for this program is greater than ever before. This is true both with respect to the military and nonmilitary requests. The oppor-

tunity for advancing the interests of the free world through the mutual-security

program is very great indeed.

I believe that evaluations of the past and studies of the future of this program should be made so that it may be improved and refined continuously. Thus, the program can be made even more useful in future years. However, the program should go forward without interruption pending the completion of these studies. We shall try to give you in the next 2 weeks a full explanation of every aspect of the 1957 program. We think that we have prepared a sound program and that

the facts presented in evidence and in our presentation books will convince you

that this is so.

Senator Green. We will adjourn until 2:30.

(Whereupon, at 12:30 p. m., the committee was recessed until 2:30 p. m. of the same day.)

#### AFTERNOON SESSION

Senator Green (presiding). Are you ready, Mr. Hollister? Senator Mansfield, are there any questions you would like to ask the witness?

### THE PRESIDENT'S FUND

Senator Mansfield. Yes, indeed, Mr. Chairman.

Mr. Hollister, just for the record, what funds does the President

now have at his disposal for use as he sees fit?

Mr. HOLLISTER. He has a discretionary fund of \$100 million, and he has a transfer right of transferring \$50 million more from any other

Those are the ones where there is entire discretion.

Senator Mansfield. As I recall, a little hazily, I am afraid, in the legislation passed last year, the administration asked for roughly \$600 million in various categories which the President could use as he saw fit. I may be wrong in that figure, but I think that was the orginal request; and, as I remember, \$350 million was allowed by the Congress.

Could you check that with one of your people to find out?

Mr. HOLLISTER. Senator, I can check it. I did not take part in the presentation. But I don't think there was any figure of that kind. I will verify it and see what the presentation was. I am familiar with the appropriation, but not with all details of the original request.

Of course, when I say "full discretion," the \$200 million Asian fund

may have been included in the figure you are thinking of.

Senator Mansfield. That is correct.

Mr. HOLLISTER. That would make it \$350 million. But the Asian fund is limited, of course, to a geographical area, so it is not full discretion. I was not counting that when I said-

Senator Mansfield. No, but it was the President's discretion in a

geographical area.

Mr. Hollister. That is correct.

Senator Mansfield. Now, would you recapitulate that \$350 mil-

Mr. HOLLISTER. Yes. I thought you meant funds he has complete discretion in.

Senator Mansfield. He does have complete discretion over those

latter funds, although prescribed for a certain area.

Mr. Hollister. Again, it is not quite the same as this \$100 million fund, because of these other limitations to it. Half of it has to be in loans, and not more than 25 percent of it can be to any one country, and none of it can be military. So it has all those restrictions on it which are different from the \$100 million fund.

Senator Mansfield. All right. Then what he has, on the basis of

my question and your answer, is approximately \$350 million.

Mr. Hollister. If you consider—he hasn't got it. He asked for it last year, and then the Congress only granted a hundred of the Asian fund in the appropriation. This committee, the Congress, passed the authorization bill authorizing \$200 million for the Asian fund, but the appropriations committees cut that down to \$100 million, and that is the way it went through the Congress finally.

So instead of \$350 million, it was \$250 million on the basis you are

Senator Mansfield. All right, \$100 million in the Asian fund; \$50 million in what fund?

Mr. Hollister. Not in any particular fund, but in the right to transfer from any other fund.

Senator Mansfield. And another \$100 million—

Mr. Hollister. In full discretion.

Senator Mansfield. Yes.

Does the President now have in addition the power to transfer funds

from one program to another up to a certain percentage?

Mr. Hollister. Yes; I think he can transfer it from one program to another up to 10 percent from any one. He can transfer 10 percent from one fund, but he cannot increase one to which he is transferring it by more than 20 percent. But it is not additional funds, Senator; it is merely a transferability right.

Senator Mansfield. No, no; but it is a transfer of funds that he can

undertake as he sees fit. The power is granted to him.

Mr. Hollister. Yes, sir.

### NONMILITARY EXPENDITURES

Senator Mansfield. Now, Mr. Hollister, how much of a carryover will the economic assistance part of the program have at the end of this fiscal year?

Mr. Hollister. It will be very small. I don't imagine it will run more than \$15 to \$20 million if we don't count the \$43 million of Palestine refugee fund, which is still being held over and was held over from the year before, because the time for its use has not yet arrived.

Senator Mansfield. Mr. Hollister, could you furnish this committee with a monthly breakdown of the amount expended by the ICA in economic assistance funds for this fiscal year?

Mr. Hollister. The monthly expenditures?

Senator Mansfield. The monthly expenditures, beginning with July 1955, and going down to the end of this fiscal year, with estimates for May and June.

Mr. Hollister. We can, yes, sir.

## (The information referred to is as follows:)

### MUTUAL SECURITY PROGRAM

Nonmilitary assistance expenditures through Mar. 31, 1956, with forecast through June 30, 1956

HOMM TIL	
1955—July\$134	1.4
August 110	3. 9
	2. 5
October 12	<b>6. 1</b>
November	9.8
December	4. 2
	0.0
	9. 8
	2. 2
Total, through Mar. 1 1, 115	
Total estimated expenditures for April, May, and June 498	8.6
Total, fiscal year 19561, 614 Deduct common-use items, included above4	4. 5 4. 5

Total, fiscal year 1956 nonmilitary assistance expenditures\_\_\_\_ 1,570.0

Senator Mansfield. Do you have any idea, Mr. Hollister, how much of a carryover there will be in the military assistance program?

Mr. Hollister. Senator, the prognostication that we made when the presentation papers were prepared was about \$4.8 billion.

Senator Mansfield. No, no. I might say-

Mr. Hollister. The carryover at the end of the current year; isn't that what you asked?

Senator Mansfield. I asked that, but I believe it was the wrong

term. Obligations.

Mr. Hollister. That is unexpended balances. You mean the amount that they could obligate this year that they will not have obligated at the end of the year?

Senator Mansfield. That is right.

Mr. Hollister. I prefer to have the military people give you that figure, Senator. I know approximately what it is, but they are right up to date on it, and when they go on the stand they will be able to tell it to you.

Senator Mansfield. Is the military represented here?

Mr. Hollister. We didn't ask Mr. McGuire to come back, because we didn't think you wanted him this afternoon. But we will have him later in the week.

Senator Mansfield. I will get the same information from him as I requested from you, because I still recall last year when the Defense people told us they would have a hundred million carryover for fiscal 1956, an amendment was offered allowing them a \$150 million carryover. That was raised to a \$200 million carryover, and then when we came to the end of the fiscal year, we had reached the figure of a carryover of \$1.3 billion, and I am not at all sure that the end, even then, was in sight.

So I wish you would inform the representatives of the Defense Department that they are going to be asked a lot of questions about last

year's funds and this year's funds.

Mr. Hollister. Senator, I think they are fully alive to the fact that the presentation of that last year was not satisfactory, and I know they have been working very hard on it, just the problems that are worrying you.

### ICA MISSIONS IN EUROPE

Senator Mansfield. Mr. Hollister, you mentioned the fact lately that certain of your offices in Europe were being closed down, and others were to be closed down.

Mr. Hollister. Yes, sir.

Senator Mansfield. Is that something new, or did that occur months

Mr. Hollister. Well, those things cannot be done immediately. As soon as I came in and took over this work, Senator, I reviewed the European picture, because it seemed to me with economic aid to Europe being stopped, except in a few countries, it seemed wasteful to continue ICA missions in those countries which had reached a pretty good financial position.

And in the course of the fall, we cut down the representation of ICA in those countries to about three people in each one. Some of my people thought it was a mistake to close them out entirely, and I

went along with that idea to see how it worked.

It didn't work satisfactorily, so we closed them up entirely, and the residual work that always has to be done to complete past programs, accounting and that kind of thing, was carried on by the Embassies in those countries. But it will eliminate completely my special missions.

Senator Mansfield. In all of Europe? Mr. Hollister. No, sir. In Oslo, The Hague, Copenhagen, Brussels, that has been done.

Senator Mansfield. Lisbon?

Mr. Hollister. In Lisbon it is under consideration. I think for one or two reasons, the Lisbon situation is a little slower. I am not exactly sure of the status today, and I am hoping little by little to accomplish it also in Paris and in Rome and in Bonn.

### COUNTERPART FUNDS IN NORWAY

Senator Mansfield. You mentioned Oslo, Mr. Hollister. That brings up a story I read some months ago to the effect that in Norway we have turned over all counterpart funds to the Norwegian Government to spend as they see fit, along certain lines which we approved of, so that in effect there is no more counterpart in that country, as far as we are concerned. Is that correct?

Mr. Hollister. I don't think it is correct, Senator, but I am not sure.

I was thinking of Denmark. I will have to check up.

Senator Mansfield. The point I am getting at is this: If an agreement has been reached between this country and Norway whereby all the counterpart funds have been turned over to the Norwegians to build certain projects of which we approve, like dams, and so forth, why would it not be a good idea to get rid of counterpart in all of  $\mathbf{E}$ urope?

Mr. HOLLISTER. Why wouldn't it be a good idea to do what?

Senator Mansfield. Get rid of all counterpart in all of Europe, and turn them over to these governments so that they could build and oper-

ate projects which we approved of.

Mr. HOLLISTER. I think the counterpart should be spent. Now, the machinery of how it should be done is something I would want to review in each country because, while it is not a subject on which I am now fully informed, the counterpart in different countries is governed by different considerations and agreements in the past, and all countries are not exactly in the same situation, necessarily.

But if you would like a report on that whole counterpart picture.

we could get it up.

Senator Mansfield. Could you ask a member of your staff what is the counterpart situation in Norway vis-a-vis now?

Mr. Hollister. Yes.

Mr. Murphy says, Senator, that in Norway it is completely programed and only the equivalent of \$2 million remains to be released.

We have no kroner now available for programing in Norway.

Senator Mansfield. Why would it not be a good idea to carry out that same kind of procedure in all these other countries, so that we can get away from being bothered with counterpart funds, because we have been, and let these other European countries work out the expenditures of these funds on the same basis that Norway has?

Mr. HOLLISTER. That is something we are working on now.

Senator Mansfield. Fine.

I understand that Mr. McGuire of the Defense Department is in the room.

Mr. Hollister. Yes, he is. I didn't know he was here.

Senator Mansfield. Mr. McGuire, I would like a breakdown, when you appear before the committee, of expenditures of the Defense Department in the aid program beginning with July of last year and including estimates for the months of May and June of this year, monthly.

Mr. E. Perkins McGuire (Deputy Assistant Secretary of Defense for Mutual Defense Assistance Program, International Security

Affairs). Yes, sir.

### ASWAN DAM

Senator Mansfield. Mr. Hollister, are we still interested in helping to build the Aswan Dam on a grant-aid basis?

Mr. Hollister. That is a hard question to answer, Senator.

An offer of a certain part of the financing was made to the Egyp-

tian Government. As yet it has not been accepted.

There has been, as far as I know, no formal withdrawal of it. What the situation would be if there was an acceptance now, if we get conditions or something of that kind, I would not know.

Senator Mansfield. Well, according to the press, it would appear that Colonel Nasser has indicated that the Soviet Union likewise has not lost interest in helping to construct that multiple-purpose project; is that correct?

Mr. Hollister. As far as I know. If Colonel Nasser says it is, it is probably true. I personally know nothing about it.

Senator Mansfield. Well, it would appear, if the press reports are accurate—and I believe they are——

Mr. HOLLISTER. We have heard that; yes, sir.

Senator Mansfield (continuing). That Nasser is playing off the Soviet Union against the United States, as far as the Aswan Dam is concerned. Of course, there has come up the possibility, a real one, that the Sudan is reconsidering its position because it wants a greater portion of the reservoir waters allocated to their own country.

But do you consider the possibility that if we do go into the Aswan Dam project with \$50 million in grant aid, as has been proposed by Under Secretary Hoover before this committee, and the British, incidentally, will go in with \$15 million, that we will be committed morally, at least, to the completion of that dam 10 years from now?

Mr. Hollister. Do I think we would be morally committed to do

that?

Senator Mansfield. Yes, sir.

Mr. Hollister. If we went on that basis; no, sir.

Senator Mansfield. You do not?

Mr. Hollister. No, sir.

Senator Mansfield. Do you favor the giving of \$50 million to the

Egyptian Government to build this project?

Mr. Hollister. That is a fairly hard question. Under certain circumstances, Senator, I would. I am wondering if we ought to pursue this subject in open session completely. There are obviously certain aspects of this subject which perhaps ought to be kept to an executive session.

Senator Mansfield. Well, that is all right, Mr. Hollister. I would suggest, though, that in this matter of economic development which would include such things as the Aswan Dam on the Nile and a TVA on the Jordan, that we get away from this idea of giving money to build these projects, and try operating on a long-term loan, low interest rate, basis.

I think we will be better off, and our friends will, too, as far as mutual respect and independence is concerned, rather than creating the

feeling of dependence.

### POINT 4 PROGRAM IN IRAN

Mr. Hollister, is Iran now taking over completely the control of the point 4 program in that country?

Mr. Hollister. No, sir. We have a development assistance pro-

gram in that country.

Senator Mansfield. And it is operating on the same basis?

Mr. Hollister. Yes, sir.

Senator Mansfield. The Iranian Government has not taken over the control and the financing of the point 4 program there, or is not

contemplating it?

Mr. HOLLISTER. If they are contemplating it, I don't know it, but they have not taken it over yet, and I haven't heard anything about their contemplating it.

#### SITUATION IN MEXICO

Senator Mansfield. Now, in your testimony on page 26, you state you recently have been in several Latin American countries; that the objectives of the mutual security program are being achieved there with material success, and the peoples of the host countries are pleased that the programs are cooperative efforts and both nations in each project contribute to the partnership spirit with which our people and the citizens of the host countries are working together.

Is that the case in Mexico?

Mr. HOLLISTER. I think Mexico is not quite in as good shape as some of the others, Senator. There has been some little difficulty down there. For example, in some of the universities down there, two places where we have the university contracts, there has been some Communist disturbance which has caused difficulty.

This is a generalized statement with respect to Latin America.

Senator Mansfield. I understood that.

Mr. Hollister. The situation in Mexico is not as happy as we would like to have it.

Senator Mansfield. Are we forcing technical assistance on Mexico? Mr. Hollister. Not that I know of. Anything of that kind, I have given the strictest kind of instructions, under no circumstances must we go into any program which is not desired by the host government.

Senator Mansfield. Mr. Hollister, you are to be commended, and

I hope those instructions are to be carried out.

Mr. Hollister. I feel very strongly on that subject.

# TECHNICAL ASSISTANCE TO LATIN AMERICA

Senator Mansfield. What is the extent of our technical assistance program in all of Latin America at this time?

Mr. Hollister. All of Latin America? Senator Mansfield. Yes, roughly.

Mr. Hollister. Thirty million.

Senator Mansfield. How much are we giving to Guatemala?

Mr. Hollister. You are talking now about technical assistance? Senator Mansfield. Yes.

Mr. Hollister. Because we are giving some \$15 million of development assistance to Guatemala. I think the technical assistance would run about \$2 million. I haven't got the amount before me. Senator Mansfield. That is understandable.

While your staff is at it, I wish they would look up the technical assistance figures for Bolivia, too. [See p. 142.]

Mr. HOLLISTER. Yes. I was in Bolivia and Guatemala, incidentally,

in this trip I took 2 months ago.

Senator Mansfield. They seem to be two of the most difficult countries in that area at the present time.

Mr. Hollister. Two of the most difficult ones, but two with the

most possibilities in the way of helping.

Senator Mansfield. The point I am getting at, Mr. Hollister, is this: My belief is we are spending in those two Latin American countries as much as we are spending in all the rest of Latin America.

Mr. Hollister. Yes, if we are discussing development, because in

those two countries and Haiti is where we are putting in development assistance; and all the rest of our Latin American program is technical assistance only.

Senator Mansfield. And these are emergency programs in these

two countries?

Mr. Hollister. Yes, sir; that is right.

Senator Mansfield. I certainly hope we will not continue to ignore Latin America, as we have under both Democratic and Republican administrations, because we just cannot take those people for granted, based on geography and based on being next-door neighbors.

Mr. Hollister. I personally am sympathetic with making the best

and closest connections we can with our South American neighbors. Senator Mansfield. Mr. Hollister, did we put an additional \$5

million into Libya within the past month or so, only because of the fact the Soviet Union was trying to inaugurate an economic aid program

Mr. Hollister. Senator, there again, there are some of these sub-

jects I think should be discussed in executive session.

#### SITUATION IN LAOS

Senator Mansfield. All right.

Now, Mr. Hollister, how much are we spending in training and equipping the Laotian Army in this fiscal year?

Mr. HOLLISTER. That is another classified figure, Senator, I am

Senator Mansfield. I will ask one question which I don't think is classified: Are we still paying up to \$800 a year in family allowances in Laos, the families of Laotian soldiers?

Mr. Hollister. I don't know, Senator. I will try to find out.

Senator Mansfield. When I came back from Southeast Asia, I did make a report to the State Department, and I did call it to their attention, and I think it was called to your attention, too; and if my recollection serves me correctly, there are, of course, no official estimates as to just how wealthy a country like Laos is, but I would be willing to bet that the per capita income there does not exceed \$25 a year, and if \$800 is being paid in family allowances to families of Laotian soldiers, then I think we are adopting a very bad policy, because we are in effect pulling a country out of the age of the oxcart, trying to put it into the age of the jet plane, and creating circumstances and difficulties that will come back to plague us.

Will you look into that ?

Mr. Hollister. Senator, I am very familiar with your report, which I have studied with a good deal of interest, and I know that is one of the great problems there. This particular figure is something we will

look up and try to get a report on.

Senator Mansfield. That was not put in the report, Mr. Hollister. Mr. Hollister. The problem there has been, Senator, that the French paid a certain amount to their soldiers; and the soldiers of the Indochinese countries serving side by side, they paid the same amount It got to be a standard of payment which of course, is very high compared to other soldiers of other countries in the neighborhood.

It was one of the problems which was inherited when we went in

there, and it is one which is under study.

Senator Mansfield. That is true, and that applies particularly to Laos. I am delighted, by the way, that you have sent out a mission to look into the conditions of both Laos and Cambodia, because an audit and a look-see into both those countries is long overdue.

You will look into that matter of Laos that I just mentioned, and which I reported on personally to the State Department on my return?

Mr. Hollister. Yes, sir.

[The information referred to, all of a classified nature, is on file with the committee.]

ADVANCE NOTICE TO CONGRESSIONAL LEADERS OF FOREIGN AID REQUESTS

Senator Mansfield. Now, Mr. Hollister, as I recollect the meeting between the administration and the leaders last December 18, I believe it was, at that meeting Secretary Dulles told the congressional leaders that he was going to ask for \$100 million additional in economic aid. No mention was made at that time about the \$2 billion which the Defense Establishment was going to ask for, and which has been asked for and is before this committee at this time.

I would like to suggest that the Defense Department be a little more cooperative in telling the Congress and the American people just what they anticipate asking from year to year, and I will take this means to compliment Secretary Dulles for telling the congressional leaders then that he was going to ask for \$100 million more.

But I will also take this platform as a means to tell the Defense Department they ought to keep the congressional leaders better informed, especially when they come from their own homes, at their own expense, at the invitation of the administration, to be briefed on what is going to be the course of events, so far as it can tell, during the next year.

Mr. Hollister. Senator, may I comment on that meeting?

Senator Mansfield. Yes; indeed.

Mr. Hollister. Because I was present at it. There was a misunderstanding as to the form of presentation. Secretary Wilson was to, and did, if the record is examined, mention this additional amount that was requested.

Because of the fact that Secretary Wilson was questioned so intensively on the total defense budget of this country, and that there was little questioning on foreign aid, or foreign military assistance, the

amount, the figure that he mentioned was rather lost sight of.

If the presentation had been made as I think it should have been, for the whole foreign-aid program as one piece, that is, the nonmilitary as well as the military, it would have shown up, because there was no attempt whatsoever to make any concealment. The \$2 billion figure was well known at the time, but merely because, in the hurry of the moment, it was rather glossed over, I am sure, and I can understand how it happened, that most of the congressional leaders left the meeting without realizing that that figure had been mentioned.

Unfortunately, Secretary Dulles, Secretary Wilson, Secretary Hum-

phrey, and I, all left at noon that day for a NATO meeting.

Senator Mansfield. That is right.

Mr. Hollister. And the pieces, by the time the newspapers came out, and some of the questioning was put as to why this extra \$2 billion

had not been emphasized more, those of us who could have cleared up

the subject were all in Paris.

An unfortunate misunderstanding did arise, which we all regret. Senator Mansfield. I am delighted to have the explanation, Mr. Hollister. I am sure you realize the difficulty that this lack of information, at least as far as the leaders were concerned, has caused in the consideration of the aid program before us.

Mr. HOLLISTER. I can well understand that.

## LONG-TERM COMMITMENTS

Senator Mansfield. Now, Mr. Hollister, in this matter of longterm commitments, what are the details of the projects which ICA would plan to handle under the new long-term commitment authority being requested? I understand that the New York Times of January 27 carried a story which reported that you had 12 such projects in mind.

Could you tell the committee what those projects are?

Mr. Hollister. No, sir. I think that story may have mentioned some 12 possibilities. I don't know whether I could give you 12 now There are a number of projects which have interested me very much which I think can do a great deal for the Asian area.

Most of them are those that are applicable for use of the Asian fund. Now, a project could be in the Asian fund if we had an annual Asian fund, and still could be a project to which the new long-term aid legislation, if granted, would be applicable.

Take, for example, the development of the Mekong River, and you know that territory very well, Senator. It has always seemed to me that the multipurpose development of the Mekong River Basin would

be an extraordinarily valuable thing for at least four countries.

That would take a long time. You could use Asian fund money for it, but if that were spread out over 8 or 10 years, it wouldn't mean very much each year, and yet a commitment to go ahead with any project of that kind with as much help from the countries involved as possible would, it seems to me, be a most valuable thing for that area of the world.

That is one example of it.

The Mekong is mentioned in this story, Senator Mansfield. Yes.

the Aswan Dam, and the TVA on the Jordan.

Of course, speaking of multiple-purpose projects, I am in favor of them in this country as well as overseas; I mean, a lot of them in my part of the Nation.

# SURPLUS AGRICULTURAL COMMODITIES

Mr. Hollister, the Congress last year appropriated \$300 million to finance the export and sale in foreign currencies of surplus agricultural commodities, and according to your figures you have spent

something on the order of \$279.9 million.

Of the \$279.9 million used to finance sales of surplus commodities, \$7 million was used to pay the differential between the United States and world prices of sugar. The presentation book, page 38, says that this sugar "is part of the 100,000 tons the Department of Agriculture procured to relieve a pressing domestic problem," and that "it is assumed that the unusual circumstances which permitted section 402 sales of \$17.7 million worth of sugar will not recur in fiscal year 1957."

What were the pressing domestic problem and the unusual circum-

stances referred to?

Mr. Hollister. Senator, I don't know very much about that. The negotiations on that happened before I got into this work, and I would prefer to have the Department of Agriculture people give you the data on that. I am sure they would be glad to come up and talk about it.

Senator Mansfield. Well, I am interested, because it was my impression that the Sugar Act was supposed to fix sugar production in relation to demand; and if that is the case, how was it possible for sugar to be declared surplus? And sugar, by the way, is operating under 98 percent of parity at the present time.

Mr. Hollister. Senator, I say that is a question that is pretty much beyond my province. In general, I don't believe that money appropriated for foreign aid as a general rule should go into transactions

of that nature.

Senator Mansfield. Well, you have a point there. But then, of course, you have got the stipulations laid down by Congress.

Mr. Hollister. Yes, sir.
Senator Mansfield. Which you are forced to, whether you like it or not, adhere to.

But I do wish that you would have someone on your staff contact the Agriculture Department and have them prepare an answer to the question I raised.

(The information referred to is as follows:)

STATEMENT REGARDING THE PROCUREMENT OF 100,000 TONS OF SURPLUS OVERQUOTA SUGAR FROM THE MAINLAND SUGAR PRODUCING AREAS

Early in 1955, H. R. 5406 was introduced to extend the Sugar Act from its present expiration date of December 31, 1956, to December 31, 1962. It would become effective for the calendar year 1955 and would increase the fixed quotas for domestic areas by 188,000 tons, plus additional amounts based upon increases

in domestic sugar consumption.

Although the Sugar Act generally has been very successful in avoiding the piling up of really burdensome inventories, either in the hands of the Government or of industry, there had been a definite tendency in the last few years for stocks of sugar in the mainland cane and beet areas to accumulate at above average levels. New varieties and improved production practices have increased yields per acre resulting in production to levels well above the present marketing quotas. The absence of killing freezes in Louisiana since 1951 has also been a factor in the buildup of stocks in this area. This situation prompted the domestic sugar industry to seek relief from the present system of fixed domestic quotas through legislation in 1955 rather than at the expiration of the present act, which is December 31, 1956.

Because of the lateness with which enactment of the bill would have occurred, it was thought advisable by the Government that the bill should become effective as of January 1, 1956, rather than January 1, 1955, as provided in the bill in order to avoid any retroactive action with respect to a change in quotas. It was recognized, however, that there was need in the mainland areas for immediate relief in disposing of their 1955 crops. Therefore, the Government proposed to undertake to purchase 100,000 tons of surplus overquota sugar produced in the

mainland areas and distribute it under foreign-aid programs.

H. R. 7030 was introduced containing the proposals made by the executive departments which provided, among other things, that the domestic areas participate in the expansion of the domestic market beginning January 1, 1956. section (19) was added to the bill making it mandatory that Commodity Credit

Corporation during the calendar year 1955 carry out loans, purchases, or other operations with respect to 100,000 short tons, sugar produced from the 1955 or previous crops produced in the mainland areas. This section also provided that the sugar so acquired be disposed of outside the continental United States.

In the closing days of the 84th Congress, 1st session, H. R. 7030 was passed by the House. However, since it appeared that H. R. 7030 would not be enacted into law, in the then current session of Congress because it was too late for the Senate to take action on the bill, the Senate passed Resolution 147 stating that it was the sense of the Senate that Commodity Credit Corporation should take the action referred to in section 19 of H. R. 7030 as far as practicable during the calendar year 1955.

Senator Mansfield. That is all, Mr. Chairman.

Senator Green. Have you any questions, Senator Sparkman? Senator Sparkman. I don't believe I have any at this time. Senator Smith. I have a few, Mr. Chairman, if I may.

#### AID TO GUATEMALA AND BOLIVIA

Mr. Hollister. Excuse me. They have given me the figures on Guatemala technical cooperation. In 1956 it was \$1,791,000. For 1957 we are asking for \$1,730,000.

Senator Mansfield. That is true. Then you have economic develop-

ment projects, roadbuilding.

Mr. HOLLISTER. That is correct. For Guatemala this year it was \$15 million.

Senator Mansfield. Roughly about \$19 million, I believe; was it

Mr. Hollister. 15 million last year for development assistance for Guatemala.

Senator Mansfield. Plus a million-

Mr. Hollister. Plus this \$1,791,000 for technical cooperation. For next year, the development assistance is a classified item.

Senator Mansfield. I see.

Mr. Hollister. And for Bolivia—do you want that figure, too?

Senator Mansfield. Yes.

Mr. Hollister. Technical cooperation for Bolivia last year was \$2,-619,000. For 1957 we are asking for \$3,195,000.

Senator Mansfield. And development assistance this year was \$20 million. Again, next year, it is a classified item. Senator GREEN. Senator Smith?

# APPROPRIATIONS AND EXPENDITURES

Senator Smith. Thank you, Mr. Chairman.

Mr. Hollister, in a document here that we have had for use of the committee, entitled "Trends in Mutual Security, Fiscal Year 1948-49 to Fiscal Year 1957," there appears on page 16 the following statement which I will read for the record:

5.—The heading is "Present Expenditures Are Greater Than Appropriations or Obligations." And it says:

The chart opposite shows by fiscal year the total amounts appropriated, obli-

gated, and expended for mutual security.

Appropriations exceeded expenditures by a considerable amount until midway between fiscal year 1953 and 1954, when expenditures began exceeding appropriations. For the past 2 fiscal years, expenditures have been at the rate of about \$4.2 billion a year, whereas appropriations have been at the rate of about \$2.75 billion. If the President's request of \$4.860 billion were to be approved in full, appropriations would once again exceed expenditures by almost \$600 million.

Now, I think the committee would be interested to know, if they have not discovered already, why we are again reaching the point where appropriations will exceed expenditures by \$600 million.

Mr. HOLLISTER. Senator, this chart I showed you this morning I

think shows very clearly what the picture is.

As you read, here the appropriations, which drop way down in 1955 and 1956—this is on the military side—whereas the expenditures, while they drop down, leveled off here at something over \$2 billion two or three hundred million.

Now for 2 years, therefore, there has been expended a billion, two or

three hundred million more than there has been appropriated.

The result is, your unexpended appropriation dropped down

sharply.

Now we are asking that they be reinstated a little, because the figure that we are asking for is what the Armed Forces estimate they need in order to keep their pipeline flowing smoothly at about the present rate of expenditure.

Does that answer it?

Here on the nonmilitary side, you see our expenditures, appropriations, and unexpended appropriations, are identical. In other words, we have got a year's money in the pipeline at the end of the year. What we are spending each year is about what we have in the pipeline, about what we are asking for.

The whole thing has leveled off, you see, in the last 2 or 3 years.

Senator Smith. I ask that question because a great many people

are confused by that difference between the two.

Mr. HOLLISTER. They need a longer pipeline, a bigger pipeline. They need more things in it because they have a longer lead time in it. They will give you that in more detail, but this is, I think, very significant, showing how it works out.

#### THE ASIAN FUND

Senator Smith. Mr. Hollister, in this question of the President's Asian economic development fund, I am still a little bit confused about that. As I recall it, last year we authorized \$200 million, and we appropriated \$100 million.

Mr. HOLLISTER. Yes, sir. Senator Smith. And you are asking for appropriation this year of the other \$100 million?

Mr. Hollister. Of the other \$100 million; yes, sir.

Senator Smith. But there is nothing in the record that I know of that shows how much of the \$100 million that was appropriated last year has been spent. I understand about \$40 million will be spent by June 1956.

Mr. Hollister. Senator, I have a memorandum on it. Unfortunately, I think I left it in another briefcase that I had for the House appearances, because I am going up before the Foreign Affairs Com-

mittee tomorrow, and they particularly asked me on that.

There has been practically nothing, I will be very frank, obligated of that amount at the present time. It runs just something like two or

three or four million.

There are, however, several very definite things that, if we don't get committed by the end of the year, are pretty well earmarked. There are a number of other items which are at least tentatively earmarked, and it is all tied up to some extent with the President's

discretionary fund.

To the extent that there have not been funds available in the President's discretionary fund, certain bilateral matters, bilateral projects or programs, which would have come out of that fund, have been tentatively allocated to the Asian fund for, although the Asian fund is, I feel, primarily for regional activities, it also may be used for single-country aid.

And the matter isn't quite settled yet, because as we come toward the end of the year, conceivably some of these temporary allocations to one fund or another will have to be changed as matters develop.

We estimate that before the end of the year we will have at least two-thirds of the Asian fund pretty well programed. Remember, it

is a 3-year fund, so we don't have to obligate it this year.

Senator Smith. Well, do you include your Mekong River development in that \$40 million that has been taken out of the first \$100

Mr. Hollister. No, sir.

Senator SMITH. That is a separate project?

Mr. HOLLISTER. That will be something else that will have to come along. We are including in that a telecommunications survey of those countries which we think is quite important. The survey itself will cost several million dollars. Of course, when we get into the actual development of it, then that is going to cost more.

Senator Smith. Will your books show at the end of June 1956, the end of fiscal 1956, how that \$100 million was allocated and spent? Mr. Hollister. Well, none of it will be spent. Some of it will be

obligated. Most of it will be tentatively allocated.

As I say, it isn't like most of our funds which have to be obligated toward the end of the year. This doesn't have to be obligated until the 3-year period is up, so the \$100 million that we had appropriated will, our best estimate would indicate, be fairly definitely allocated to the extent of \$60 or \$65 million by the end of this year.

Senator SMITH. Then he will still want the additional \$100 million

appropriation for fiscal 1957?

#### THE MEKONG RIVER DEVELOPMENT

Mr. Hollister. Yes, because we see enough things coming over the horizon.

Senator Smith. That is what I want to get at.
Mr. Hollister. We see enough things coming over the horizon we feel we ought to have the other \$100 million for the coming year so that we can plan, even if we don't get them completely obligated in 1957, because we have got a 3-year fund. We still cannot very well go ahead and plan on doing them unless we know we are going to have

Senator Smith. Well, can you indicate what that horizon is, what

is appearing on the horizon?

Mr. Hollister. Yes, sir. I was discussing one of them with Senator Mansfield, the Mekong River development. There is another one that interests me very much.

Senator SMITH. When I asked the question on the Mekong, you meant nothing for the Mekong would come out of the first \$100 million?

Mr. Hollister. At the present time.

Senator Smith. But there may come out something for the Mekong—

Mr. HOLLISTER. At the end of another year. Senator Smith. That is what I wanted to get at.

## ADDITIONAL PROJECTS UNDER THE ASIAN FUND

Mr. Hollister. Then there is a project which I think has considerable value, and that is the possibility of developing the communications, roads, and conceivably even something of a railroad connecting India with Nepal. Nepal should have a southern orientation, to the extent possible, in India. Transportation is very difficult up in the Katmandu Plateau, and it does seem that a development of roads connecting Nepal into India and connecting with Indian railheads would be most valuable.

Another possibility that I think would be most valuable to settle tensions, with which we are all familiar, is the possibility of a similar development of transportation between Pakistan and Afghanistan.

The railroads of Pakistan run up close to the border now. If through the Khyber Pass and the pass which comes into Quetta in the south from Kandahar, the roads down from Afghanistan, properly developed, with proper storage facilities, could make it a lot easier to ship Afghanistan goods out through Pakistan to Karachi, and it seems to me a matter like that would be helpful not only to orient Afghanistan our way, but recreate friendship between the two countries.

Senator SMITH. Those are typical things? Mr. HOLLISTER. Those are typical things.

Senator SMITH. I got the impression at the last Colombo group meeting they were not particularly interested in talking about these regional ideas.

Mr. Hollister. If they are not enthusiastic, I don't think they have been educated up to it. Somebody has to talk to them about it so

that they learn to talk to each other.

There has been, I think, all too much in the world a working in, without talking over the borders enough, and I do feel that these regional projects give us a great opportunity to bring some of those countries closer together.

Senator SMITH. I am in entire agreement with you. It seems to me we could have done heretofore more projects in developing re-

gional projects in the area.

Mr. Hollister. I should have mentioned the project first which has gone farthest toward getting down to brass tacks, the Asian nuclear center in the Philippines, where there already has been obligated a certain amount of money to pay for the study, and we have a team from Brookhaven which is in that area now, going from country to country, discussing with each country what that country could contribute in the way of technicians or assistance of one kind or another, so when the center is developed in Manila, or wherever else in the

Philippines it may be, and it would probably be Manila, the other countries would be ready to cooperate so we make it a true Asian center for all of Asia, and run by Asians. That is the desire.

Senator Smith. I think that is very desirable to have the Asians contribute the thinking, and we help them in legitimate projects; that

that is the right way to approach it.

I have gotten the impression in my trips out there sometimes, that when we come in a good friendly way and suggest what they need, they do not like it. They like to tell us what they need over there.

Mr. HOLLISTER. Well, the last thing in the world we want to do is

foist our views on them.

Senator Smith. I know you feel that way.

Mr. Hollister. But in sitting down and talking things over with them, we sometimes can work out a mutual understanding, particularly with 2 or 3 of the countries, with each other.

## DISTINGUISHING BETWEEN MILITARY AND NONMILITARY ASSISTANCE

Senator SMITH. Do you think it would be possible to present, in the future, a clearer division in our whole program between what is really nonmilitary and what is military? It seems to us a great deal of what you call nonmilitary is closely tied in with the military program.

How can you make a clearer distinction?

Mr. Hollister. I agree with you. I think a large part of it is tied in with the military. In fact, I think that is one thing which I have accentuated and I want to continue to do that. I say something like 83 percent of the whole amount is really, if not on the military side, at least it is used in order to be certain that we keep these armies, protective armies, in the field and keep the countries where they are operating strong enough to back them up.

An army which has a collapsing economy behind it isn't much of

an army.

Senator SMITH. Well, I think that is true, but what would you say then was the primary objective of the nonmilitary side, purely non-

military side, of the whole program?

Mr. Hollister. Senator, I think the whole program is for the peace and security of the United States. Now, obviously the difficulty of trying to specify, after generalizing that way, is that we obviously must have different programs in different parts of the world. When you are working in 70 different areas, while the whole purpose may be the peace and security of the United States, the way in which you accomplish that purpose in one country is quite different from the way you do it in another.

In a country where you have a strong military alliance you obviously handle your aid in an entirely different way than in dealing with an uncommitted country, which is perhaps suspicious of any connection with a great economic power from the West, and your approach and

your activities in that country are quite different.

Then in the countries where technical aid is given a somewhat different approach than either of those is used. I think they are all toward the main purpose of achieving peace and helping the security of the United States.

## THE COMMUNIST THREAT

Senator SMITH. Suppose there were no Communist threat or there was a diminishing Communist threat, would you still think that the nonmilitary side of this program should be carried on?

I had the pleasure of being with you in South America this year,

you will recall.

Mr. Hollister. A very mutual pleasure.

Senator Smith. You went to Brazil first, and then to Bolivia, and then Peru and Guatemala. There is no immediate military threat, and we were not thinking in terms of our security. At the same time we were doing a nonmilitary job in those countries in the way of technical assistance and economic aid. In the absence of a Communist threat, do you think that those things were justified from the stand-

point of our foreign policy?

Mr. Hollister. That is a very hard question, Senator. The foreign policy, as I say, is now as I have stated it. Whether if the world got into complete peace so there was absolutely no danger of any kind, we should want to continue in a program of that nature, is something that I really wouldn't want to discuss here, because I think it is unnecessary. It is so clear to me that what we are doing is necessary because of the threat to our security that everything could be justified on those grounds.

Senator Smith. You mean as far as this year's program we are

discussing now, the whole thing could be justified—

Mr. Hollister. Yes, sir.

Senator Smith (continuing). From the standpoint of security and

protection against——

Mr. Hollister. I think Guatemala is a typical example of why even a technical-assistance program in countries very far removed, thousands of miles removed, from military threat, is valuable. Because we all know how close Guatemala came—it not only started to be a nest of Communists, but it was rapidly emerging as the Communist center of the Western World. That shows that even many thousands of miles from a direct military threat, something of that kind may happen which is a direct threat to our security; and, therefore, I think it is perfectly clear, under those circumstances, we can justify all the technical-assistance programs that we have in Latin America.

Senator SMITH. Well, I am glad to have you say that, and I want to take this opportunity to congratulate you on your approach to the Latin American problems. In Guatemala, we both agreed a wonderful job had been done in steering away from the Communist threat

which was right in the middle of the country.

Mr. HOLLISTER. It is extraordinarily impressive what Castielios Armas is doing in that country.

#### LOANS AND GRANTS

Senator Smith. I want to congratulate you on that. One more question in the field of loans and grants.

On pages 37 and 40 of your statement which you read this morning, you said that you have found that loans could not be made in a manner which would carry out mutual security objectives unless the terms of such loans were so liberal as to constitute partial grants.

Do you not think that a partial grant is better than a full grant? Mr. Hollister. I think so, Senator, yes, and of course in some countries we have part of our aid given on a loan basis and part on a grant

Senator SMITH. I got the feeling in some of my travels and talking with some of the people in the Far East, especially, that they would rather go on a loan basis if they possibly could, than on a grant basis. They felt there was a certain amount of paternalism in an outright And my mind has been moving toward loans as far as we can possibly have loans.

Mr. Hollister. Well, it is one of those subjects in which you can take either side and argue with a good deal of strength. I have been trying my best to get as many loans as possible into the program. It is

not very easy.

When we get to executive session, I would like to give you some individual cases of why it has been very difficult, sometimes, in countries that looked as if they could perfectly well make loans and repay them, why we have not been able sometimes to do what on the face of things looks like the logical course.

Senator Smith. When you speak of a soft loan, you mean a loan that has to be repaid in currnecy of the country which would make the loan, or a loan which is not likely to be repaid at all?

Mr. Hollister. Well, a soft loan generally is one that-Senator Smith. Looks more like a grant?

Mr. Hollister. You would have to sell at a discount if you sold it

to somebody else, and a large discount. Senator Smith. Well, Mr. Hollister, I want to thank you again and congratulate you on the fine job you are doing, and particularly emphasizing that Latin American approach. I thought the Bolivian endeavors, and I thought in Guatemala, we were doing a real bang-up job.

Thank you very much, Mr. Chairman.

#### LONG-TERM COMMITMENTS

Senator Sparkman. Mr. Chairman, may I ask two brief questions? Senator Green. Senator Sparkman.

Senator Sparkman. Mr. Hollister, I read a speech a few days ago made by Mr. J. D. Zellerbach—in fact, I placed it in the Congressional

Record today—a speech on foreign aid.

In it he made some reference to the legislation pending in the House, and I gathered from this speech that if this long-range program was granted by Congress, there will be some manner in which Congress may know ahead of time, perhaps have some chance to share in the making of the decision with reference to the projects which will be included.

Is there anything in the bill which relates to that?

Mr. Hollister. Nothing whatsoever, and I don't quite understand

the connection between Mr. Zellerbach's speech-

Senator Sparkman. I was a little surprised, too, because I did not think that—perhaps he meant in reviewing year by year, rather than referring to from time to time.

Mr. HOLLISTER. Because he has not consulted with me, and whatever he may have said in a speech of that kind was, of course, notSenator Sparkman. I understand that it was his own speech, but he made that statement, and I was curious to know if that legislation

actually had that in it.

This thought has been going through my mind: I have been seeing from time to time a great many people questioning this long-range program, and I was wondering if it might not be feasible for your agency or the President, or whoever would handle this program, to submit to Congress or to the appropriate committees of Congress, projects that are proposed to be obligated for a term of years, and to get clearance of the committee.

I am thinking of the same course that is followed in the military with the Defense Committees of Congress. You know the plan there. Before any extensive development or construction or anything of that kind is engaged in, those projects are submitted to the two committees, the Defense Committees, and clearance obtained of the committees

before they proceed.

I am just wondering if you have given any consideration to the possibility of a somewhat similar operation with reference to these projects in the different countries that would be submitted in this long-range program.

Mr. HOLLISTER. We had not given any thought to that.

Senator Sparkman. I just suggest to you that as we move along through this program, and it is far away from completion, if you should run into too much trouble, it seems to me it might be well to

consider some such plan as that.

It seems to me there is rather a strong feeling, if I judge correctly the statements which have been made relating to this, that by giving a 10-year, long-range program, Congress is more or less releasing control over the projects. It seems to me that perhaps an answer to that might be to provide some kind of a clearance program with the appropriate committees of Congress, as is the case with military projects now.

I do not ask you to comment on it now. I simply suggest that you be thinking of that, because certainly it seems to me something like that could be done.

#### ASWAN DAM

By the way, I have read a good bit in the papers about the Aswan Dam. Would that be the kind of a project which could be handled under this kind of a program?

Mr. Hollister. That could be; yes, sir.

Senator Sparkman. Actually, that was not the proposal; was it? It was an International Bank loan.

Mr. Hollister. There was no such authority. At the time the tentative offer on the Aswan Dam was made, there was no authority to spread it out over a period of years.

Senator Sparkman. Was that to be a grant on our part, or was it

to be a bank loan?

Mr. Hollister. The first step was to be on a grant basis.

Senator Sparkman. By our Government?

Mr. Hollister. Yes.

Senator Sparkman. Now, let me move to one other thing.

Mr. Hollister. That was in connection, Senator, I have been reminded, the whole Aswan Dam project as worked out by the Inter-

national Bank was to cost about \$1,300 million, of which about \$900 million would be supplied by the host country. It would be internal currency which would be spent in Egypt. That meant about \$400 million additional would have to be raised somehow.

The International Bank agreed that they would make a \$200 million That left about \$200 million of foreign exchange to be raised

other ways.

The project was to be constructed in several steps. The first step involved certain water diversion, tunnels, and temporary dams, and that kind of thing, and was to cost around \$70 million. This country and Great Britain together agreed to go into the financing of this first step. That is the one that is still under consideration.

#### MILITARY ASSISTANCE

Senator Sparkman. Let me move to another matter: Is it not true that in the request which has been sent up for authorization, I believe your charts show that approximately 85 percent is military, including defense support.

Mr. Hollister. I don't think I have any charts which show that. Those are the figures that Secretary Dulles gave your committee the

Senator Sparkman. Well, as a matter of fact, I made this calcula-

tion from one of your charts this morning by combining two.

Mr. Hollister. You probably got it that way. I mean, I didn't have any chart which showed all military. You probably took all the military and defense support, and added them together.

Senator Sparkman. That is correct. By adding these together here,

you get 85 percent.

Mr. Hollister. That is right.

#### ECONOMIC ASSISTANCE

Senator Sparkman. Here is one thing I think has never been clear to the country, and that is, in any one of the years we have been carrying on this program, purely economic aid in this proposal is only about 15 percent of the total, approximately \$700 million; is that true?

Mr. Hollister. Well, it is-

Senator Sparkman. And that includes all types of economic aid.

Mr. Hollister. I think those figures are about correct.

You see, the trouble is, Senator, because of historical reasons, the terminology used is not as clear as it might be.

Senator Sparkman. That is exactly what I am trying to do; to clear

Mr. Hollister. We call any economic aid except technical assistance given to a country with which we have a military agreement,

defense support.

Now, in defense support, for instance, to Korea, to Formosa and certain other countries, while we are giving the kind of support we are because of the armies that are there, because of the threat that we see, still some of it does not go directly to keeping the army

Let's suppose we help build a powerplant in Korea. That is called defense support. Now, it is true that the power is needed, and it is

true that it helps the country get on its own feet. It helps the economy of the country generally. But, you see, the person who is talked to must understand what you are talking about when you call that de-

fense support. Do you see what I mean?
Senator Sparkman. Yes, sir, I understand it, but it is economic aid that is given because of the defense requirements that the free world makes of that particular country which it is not able to sustain within its own economy.

Mr. HOLLISTER. That, and a little more, because by helping to build up the economic resources of that country we get it in better shape so that it can more and more pay its own way so we have to pay less

for the future.

Senator Sparkman. Yes. But it is essentially a defense operation.

Mr. Hollister. Yes, sir. Senator Sparkman. Whereas what I call the purely economic aid, and that includes technical assistance, if I understand it correctly, the technical assistance program through the United Nations, and it includes the economic development programs in the several countries in which we help them with special economic development programs, it includes the help to the children's fund, and all of those different things—all of that put together amounts to about \$700 million, does it not, in this proposed program?

Mr. Hollister. I would say it is less than that, but I would have

to add it all up.

Senator Sparkman. But it is in the neighborhood of that? Mr. HOLLISTER. I would say it is somewhat less.

## SURPLUS AGRICULTURAL COMMODITIES

Senator Sparkman. Yes.

Now, there is just one other thing I want to ask you about, and I

do this in order to clarify my own understanding on it.

My understanding is that in section 402 last year we directed that the ICA spend \$300 million for the disposal of surplus farm commodities.

Mr. Hollister. That is correct.

Senator Sparkman. Do I understand you correctly that by the end of the year you will have spent actually \$270 million of it?

Mr. Hollister. No, sir; we think we will go over the 300. Senator Sparkman. Oh, the 270 is now; is that right?

Mr. Hollister. That is the present.

Senator Sparkman. By the end of the year it will be \$300 million? Mr. Hollister. We think so. We never can be perfectly sure, but we think we will get over the top and have a little margin. been an awfully hard fight.

Senator Sparkman. Does the \$270 million represent commodities that have actually been bought for this purpose, or are already in the

movement? It is not just a planned program, is it?

Mr. Hollister. No, they are contracted for. Senator Sparkman. By the end of the year, you think that will be to the full \$300 million?

Mr. Hollister. We think it will be over \$300 million.

Senator Sparkman. Although in the new program you are asking that we reduce it to 250?

Mr. Hollister. Because, you see, Senator, it gets harder each year. Senator Sparkman. Yes, I caught in your statement what you said. All right. Yes, I see, it has just been pointed out to me that on page 38 you say that negotiations for additional sales are actively underway. You state that it now appears the maximum amount of funds which can be utilized efficiently to finance direct sales may be only \$270 million, which falls short of the \$300 million, but you have

revised that since you prepared this?

Mr. Hollister. We think we will do it. Now, the trouble is to do it, we have to get some triangular trade agreements, and they are pretty hard to work out, but we think we are going to be able to

If we don't, we are going to have that much less funds to spend, because we are limited.

Senator Sparkman. But you are up to \$300 million of it?

Mr. Hollister. We should be; with the last figures I heard, we were practically sure of that.

Senator Sparkman. Thank you very much, Mr. Chairman.

Senator Green. Senator Humphrey, do you have any questions you would like to ask?

## BREAKDOWNS OF AMOUNTS

Senator Humphrey. Just a few points, Mr. Chairman, I would like to get a little more information on.

I regret, Mr. Hollister, I was not here this morning. We had a meeting of the Committee on Agriculture which prevented my attendance.

I was able to get a copy of your statement. I would like to ask a question or two in reference to some of the figures that have been broken down for us in the committee analysis of the bill, the Mutual Security Act of 1956, and the message from the President in the House of Representatives Document 358.

In what we call development assistance, which is the economic aid section exclusive or apart from defense support, I see the authorization request for fiscal 1957 is Near East \$63 million. What is the

breakdown?

Mr. Hollister. That is classified, Senator.

Senator Humphrey. We are going to get that in executive session!

Mr. Hollister. Yes, sir.

Senator Humphrey. And that must be true, then, of all the other figures; is that correct?

Mr. HOLLISTER. Most of it. I have a list here of what are classified and what are not. Perhaps you would prefer to take it piecemeal or get it all in executive session.

#### THE ASIAN FUND

Senator Humphrey. All right.

Now, a year ago we set up a special regional fund for Asia of \$100 million.

Mr. Hollister. Yes, sir.

Senator Humphrey. Was that fund utilized?

Mr. Hollister. No, sir. I have been dicussing that earlier today.

Senator Humphrey. How much of it has been used?

Mr. Hollister. There is very little of it which has been obligated. There is about 30 to 35 million which has been tentatively allocated,

and we think by the end of the year we will have two-thirds of it tentatively allocated.

You remember, it is a 3-year fund. Senator Humphrey. That is correct.

Mr. Hollister. And we have got a number of things, as I was just explaining a little earlier before you came in, coming over the horizon which will take us well over the \$100 million.

That is why we are asking that the additional \$100 million which

was not appropriated last year be appropriated this year.

Senator Humphrey. That is \$100 million a year?

Mr. Hollister. Two hundred million dollars was authorized last year. Only \$100 million was appropriated.

Senator Humphrey. A hundred was appropriated?

Mr. Hollister. For the 3-year period. The Appropriations Committee saying that, well, let's see how far a hundred takes you, and then come back again next year.

So we are asking again for the \$100 million to be appropriated this

year to make up the full authorization.

Senator HUMPHREY. My concern about it was this: I recall last year there was considerable emphasis upon this special regional fund, and the urgency of it. I recall that the President's request was larger than that which was ultimately authorized, if I am not mistaken, I think \$50 million more.

Mr. HOLLISTER. I don't think so. I think he only asked for \$200

million.

# THE MIDDLE EAST FUND

Senator HUMPHREY. In the Senate we did—I recall the emphasis that was placed upon it, and the urgency of it.

What I am getting at is, you are asking for a new fund for the

Near East of \$100 million this year.

Mr. Hollister. Yes, sir.

Senator Humphrey. Do you have any projects in mind for that \$100 million?

Mr. Hollister. I should point out that it is a little different type of fund. The President's Asian fund, the Asian development fund, was to be a fund for development purposes, projects and programs which would develop the countries, and there was an emphasis on the regional aspects of it—

Senator Humphrey. That is correct.

Mr. Hollister (continuing). As against the use of it for individual countries.

The Middle East fund is not for that purpose. The Middle East fund—I should say that, it might be used for that purpose but it is intended that the Middle East fund is to be more generalized. It can be used for individual countries. It does not necessarily have to be a development matter. It might be some kind of a crash project.

I think everyone realizes that the problems of the Middle East, if not more acute, have at least been more brought to our observation

during the last year than before.

And the President has felt that it would be most valuable if we

could have a fund to maneuver with in that area.

Senator HUMPHREY. This is over and above the discretionary allowances that are provided in the authorization?

Mr. Hollister. Yes, sir.

Senator Humphrey. But the reason I press this point with you, Mr. Hollister, is that a year ago I recall quite vividly the urgency of this regional fund because of the nature of some projects where you may need funds which overlap countries on regional development programs.

For the moment, I do not recall the specifics that were talked about

or, should I say, the generalities that were talked about.

Now we are asking for \$100 million in the Near East. We recognize it surely is a critical area, and one that is filled with all sorts of possibilities of trouble.

What I am trying to find out is, just what will that fund be used

Mr. Hollister. Let me say this: I think that if an impression of immediate urgency with respect to the Asian development fund was conveyed, it was unfortunate, because it was expected to be and has been a slow process. A development project is always a slower thing than an immediate aid project or some kind of a crash project, and when you are dealing with several countries it gets still slower and still more difficult to work out.

I myself am disappointed that we don't show more progress in the Asian fund, but I believe that now cumulatively, as time goes on, things are getting nearer and nearer fruition, so we will be able to show by the end of the year some important forward steps.

This is an entirely different kind of a fund. This is not a 3-year This is a hundred million dollars to be used for this area for anything that may eventuate. It has to be something that is not

If we could program it for different countries, we would try to, but we feel there ought to be a fund available of this kind that is not

programed, which you can use in case of emergency.

## CARRYOVER OF THE PRESIDENT'S FUND

Senator Humphrey. How many funds do we carry over now that the President has under his command?

Mr. HOLLISTER. The only fund carried over is the Asian fund. There is in addition the President's \$100 million fund under section 401 that he can use for practically any purpose. That will be entirely used up by the end of the year. In fact, it is tentatively used up now, but of course there may be reallocations in the 2 months that are still left, or the month and a half.

Senator Humphrey. I would appreciate, since I am asking this question, if the staff would provide us with an analysis of the special funds, because each time I have heard a request for authorization, we have

always had another special fund included.

Now, I voted for these special funds because I believe the Executive needs a great deal of flexibility and discretionary power in the use of foreign aid funds, but I am becoming of the opinion that in light of the requests that are made, the repeated requests, that maybe we should have a little more information as to just how they are used and what the chances are for their use.

Mr. Hollister. We will give, Senator, we can give you in the next 48 hours, a statement of all those funds. The reason we are asking for extra funds becomes clearer all the time, because what has happened is that the President's emergency fund of \$100 million was not adequate. The result is that some items which might, perhaps, have gone into that fund are tentatively programed for the Asian fund, even though they are not of a regional nature, because they are in the geographical area to which the Asian fund is applicable, and there is not any room for them any longer in the President's emergency fund.

That is exactly why we are asking for larger emergency powers, because in these swiftly moving times, when you have to begin to program, if you want to give an exact program to Congress you really have to begin programing 2 years ahead of the time that you spend. You simply cannot expect to carry on a billion and a half or three-quarter program that way. You have got to have greater flexibility if you want to do the job right.

(The information referred to is as follows:)

STATEMENT OF THE USES AND PURPOSES OF THE SPECIAL FUNDS PROPOSED IN THE MUTUAL SECURITY ACT OF 1956

There are three funds included in the proposed legislation and appropriation request. These may be described briefly as follows (see presentation books for further detail):

Special Presidential fund (sec. 401)

This was a new fund in the 1955 legislation, although previous acts had permitted diversion of up to \$150 million of other funds for special purposes as determined by the President. For fiscal year 1956 Congress appropriated \$100 million for special use in addition to \$50 million of funds otherwise appropriated. To date requirements are already in excess of the \$100 million availability for such purposes as expanded needs in Turkey, Iran, and Pakistan as well as special emergency needs as, for example, gammaglobulin for India, food relief shipping costs for Italy, and medical equipment for Argentina. As was noted in the testimony, because of the \$100 million special Presidential fund was not adequate, certain requirements of an unforeseen nature are being tentatively programed for the Asian fund because, although not of a regional nature, they fall within the Asian geographical area. For fiscal year 1957 an additional \$100 million is needed under section 401 for (1) presently identifiable contingent requirements which may hereafter become firm and (2) completely unforeseen needs which develop in the course of fiscal year 1957. General purposes of the fund will be similar to those to which the \$100 million is being used in the current year.

Special authorization for Middle East and Africa (sec. 420)

This fund is newly proposed for fiscal year 1957 and is a response in large part to the new Soviet economic aspirations in the Middle East. The fund would be used for economic programs which can meet positively the Soviet challenge, both in individual countries and, in the case of water utilization and communications projects, where proposals involve more than one country. This fund is different from the special Presidential fund in that many of the problems in the Middle East appear in definable form but the timing or magnitude of requirements cannot be fully stated and associated with specific country requests at this time. The additional flexibility provided would be limited to the Near East and Africa (and Afghanistan) and as noted would in large part supplement bilateral programs in fiscal year 1957. Unlike authorization for the special Asian fund, which provided in the initial authorization for up to 3 years of availability, the fund for the Middle East would relate to fiscal year 1957 only. The requirements to be met would not be limited to longrange development but would be considered as emergency requirements which would have to be met to maintain stability in certain countries or give general flexibility needed in an area where the United States must be able to act promptly and positively.

Special Presidential fund for Asian economic development (sec. 418) See page 143 and/or 172. Senator Humphrey. I agree with that. I felt that way 2 or 3 years ago when there were some substantial reductions made and which I thought would cause us some trouble.

## INCREASED MILITARY ASSISTANCE

What is new about this foreign aid program before us? Is there any more economic assistance in this program than we had before?

Mr. Hollister. In the last year?

Senator Humphrey. Yes.

Mr. Hollister. Approximately the same.

Senator Humphrey. There is more military assistance?

Mr. Hollister. Yes, sir; very much more.

Senator HUMPHREY. I thought I read where the President said he felt that \$1 of economic aid was worth \$5 of defense aid or defense funds. Do you recall that?

Mr. Hollister. I don't really remember his saying that. But if he

said it, I certainly am not going to disagree with him.

Senator HUMPHREY. What is your view of it? Do you think that

economic assistance is as important as military?

Mr. Hollister. I think economic assistance is enormously important. Of course, a large part of the economic assistance is to support the military assistance. Now, whether you put it into putting guns and ammunition, planes, ships, in the hands of our allies, or give them the economic aid that helps them to do those things themselves, it is in some cases as broad as it is long. But obviously what we are trying to do is to get them as secure as possible, and also to help them develop so that they can carry their own load and have a little more happy prospect about the future.

Senator Humphrey. I am familiar with that, Mr. Hollister. What I am concerned about is that I keep hearing about the change of Soviet tactics, the threat of the Soviet, the economic and the political front,

and the necessity for less reliance upon the military.

And yet in this foreign-aid program the increase that we have, despite these statements which the Secretary has made, and which the President has made, and which a number of spokesmen have made about the importance of meeting the Soviet economic offensive, I notice there is little or no increase in economic aid, and a very substantial increase in military assistance.

Was this program designed before there was a recognition of the change of Soviet tactics, and, therefore, needs to be looked over in

light of that?

Mr. Hollister. Well, of course, this program we are talking about now, the planning for this started something over a year ago, through the missions in the field, and it was refined during the summer, and put into the hands of the budget people, and finally presented, as you know, shortly before Christmas to the President; and then presented to the Congress.

You know how those things go. Senator HUMPHREY. Yes; I do.

Mr. Hollister. And, as you also know, the Soviet economic threat, if you want to call it that, or penetration, which is probably a somewhat sounder term, has been developing during all that time.

Now, it is a subject in which there are all kinds of disagreements. It is obviously something we have to study very carefully. It is obvious to me that to try to meet it by outspending the Soviet Govern-

ment would be very foolish.

I think people don't realize enough how much goes into the world from this country under our economic system that it not under Government budgets and is not under Government control at all. We are a little inclined to compare what we give each year in the economic field, as a government, with what the Soviet Government is offering in the way of trade, and they are not giving anything away. A large part of what is offered is ground out of the blood and the sweat and the tears of their satellites, and of their own people.

It looks like what they are doing is fairly large, but if you compare that with a great mass of world development which is going out each

year from under our industrial system, it is pretty small.

Now, what it will accomplish, nobody can tell as yet. I think we must not get stampeded, though, because the Soviets have given up an immediate military threat and decided that perhaps trading is a

pretty good thing to do, after all.
Senator HUMPHREY. Well, my concern was that if we are having a program which is pretty much the same as it was before, and our official Government spokesmen are being more deeply concerned about Soviet economic pentration—and there have been innumerable speeches about the importance of long-term economic assistance, including even action through the United Nations on economic matters-how does this program relate directly to these recent pronouncements on the part of the President, and the Secretary of State, Members of Congress, and leading spokesmen in private life?

I have looked over the budget analysis of this program, and I must say, out of my own personal view, that does not relate directly to what I have been reading as the new threat or the new challenge of the

Soviet.

#### REASONS FOR INCREASED MILITARY ASSISTANCE

For example, let me just ask this: What are we going to get out of this military assistance?

Mr. HOLLISTER. You mean out of the addition?

Senator Humphrey. Yes.

Will we be stepping up deliveries?

Mr. Hollister. Let me again point out here, Senator, that the necessity of stepping up appropriations on the military side is because for 2 years the appropriations of the military dropped down to about a billion whereas the expenditures had leveled out at about something under two and a half billion.

Senator Humphrey. Has the Congress cut those appropriations?

Mr. Hollister. Yes, sir; cut it the last 2 years.

Senator Humphrey. How much?

Mr. HOLLISTER. Last year by \$700 million, I believe, and I forget what it was the year before. I do not think you cut the request very much the year before because the administration recognized there was too much in the pipeline, so it cut down the request for appropriation and had some of it run out.

Now that it has run out over the last 2 years the request is again to

help fill the pipeline.

Senator Humphrey. What we really did before is to live off the inheritance?

Mr. Hollister. That is right; yes sir.

Senator Humphrey. And now we have to go to work?

Mr. Hollister. It is wrong to have too much tied up in an appropriation sitting idle. It was perfectly correct to make a certain cut. Whether we will agree how much was cut was wise or not, I don't know, but it is wise to reduce appropriations when you have unnecessarily leaves and all the second states are the second seco

sarily large unexpended appropriations.

Now when you get to the point where you have less than 2 years' funds (there is about 2 years lead time, a longer lead time in the military than the nonmilitary), it is necessary to build it up again. In addition we have in the program for the first time about half a billion dollars for new weapons for the help of our allies overseas.

Senator Humphrey. May I just complete this point with you, Mr.

Hollister.

Does this mean that there will be a stepup in deliveries of military assistance?

Mr. Hollister. No, sir; it will run about the same.

Senator HUMPHREY. That we will maintain about the same flow?

Mr. HOLLISTER. That is contemplated to run at about the same,

under \$2½ billion of military expenditures.

#### UNOBLIGATED FUNDS

Senator Humphrey. How much carryover did you have last year on military assistance?

Mr. HOLLISTER. What do you mean by "carryover"? Do you mean unexpended balances at the end of the year?

Senator Humphrey. That is correct.

Mr. Hollister. Or unobligated appropriations?

Senator Humphrey. Unobligated.

Mr. Hollister. Unobligated appropriations.

Senator Humphrey. How much did you have unobligated?

Mr. Hollister. Will you let the military people answer that later? Senator Humphrey. I understand you have your technical staff with you.

Mr. Hollister. They are going on in full on this subject later.

Perhaps the details had better wait.

Senator Humphrey. I would like to get my figure to see if my memory is correct.

Mr. HOLLISTER. What was unobligated appropriation last year, appropriation unobligated at the end of 1955?

\$100 million is what they tell me. They will get it for you exactly.

Senator Mansfield. Would the Senator yield there? Senator Humphrey. I yield to the Senator.

Senator Mansfield. That is what the military people said, that

they would have \$100 million carryover.

This is reptition of testimony this morning. Then, they were allowed \$150 million carryover. It was raised to \$200 million and before we got through we found out they had \$1,300 million, and of that they appropriated or "reserved", which is a very questionable

word, \$614 million at least in the last 5 hours of the last day of the last fiscal year. I think the record will prove that. And that may explain in part why there was a reduction in the appropriation request

Mr. Hollister. Yes, sir. Senator Mansfield. That was before you came on the job.

Mr. Hollister. It was just before I came in. I remember following that when I got in. I believe the people in charge of that program this year are very alive to the problem and I think you will find most of it has been pretty well ironed out.

# ECONOMIC DEVELOPMENT FUNDS AND THE UNITED NATIONS

Senator Humphrey. Mr. Hollister, I notice in the budget request there is no increase, or any appreciable amount of increase, in funds to the United Nations technical cooperation program; is that correct?

Mr. Hollister. Yes, sir.

Senator HUMPHREY. I also note that there is no fund set aside for any U. N. economic development program?

Mr. Hollister. That is correct; yes, sir. Senator Humphrey. Haven't I heard recently from the President and the Secretary of State and Ambassador Lodge, our head of mission at the U. N., that we ought to be using more of our economic assistance and technical assistance funds through the United Nations?

Mr. Hollister. I read what Mr. Lodge said. The papers came out stating that he had insisted that there should be a large increase.

Senator Humphrey. Is that administration policy?

Mr. Hollister. No.

Senator Humphrey. Who was he speaking for?

Mr. Hollister. Will you be good enough to let me finish, Senator? When I read what he actually said, it had been a little bit overplayed in the newspapers.

Occasionally that does happen. It is not administration policy to increase substantially at the present time a contribution to the United

Nations technical assistance activity.

Senator HUMPHREY. You feel that that is not desirable?

Mr. Hollister. I think not, Senator. I think it would be a mistake. I think that it is perfectly proper, very fair for us to do even more than our share, which we are doing today. It does seem wrong to have us put up the lion's share of the money to be put in the hands of other people to spend. That somehow does not seem logical to me.

Senator Humphrey. Isn't that a question of what you want out of this money, whether you want credit or whether you want achieve-

ment?

Mr. Hollister. I would think that achievement is what you want.

Senator Humphrey. Yes.

Mr. Hollister. But I think that if one would examine the activities of any international organization, it is very difficult to get efficiency. It is very difficult to get efficiency in government. Any government organization is, I think, innately somewhat inefficient and wasteful and I think when you get into an international organization, you compound the problem by the number of countries with which you have to deal.

Senator HUMPHREY. Mr. Hollister, that may be a debatable point. I have seen some reports to the effect that the U. N. agencies such as World Health, Food and Agriculture, and the technical assistance program have had a remarkable record in terms of value received for dollars expended. I think the important point is, and I want to state my position on it, that we may very well be able to achieve much more in the fulfillment of the objectives of our foreign policy, namely, the independence and the strength and the stability of free countries by working through some of the United Nations agencies than we do working bilaterally.

I am not saying that we ought not to have our bilateral arrangements. I recognize the importance of that. But I am somewhat concerned about the fact that in this program there is no emphasis, no improved or increased emphasis whatsoever upon our participation

in the United Nations or the United Nations agencies.

Now I may not be a very good reader of the newspapers, but I have been led to believe by what I have read and the speeches that I have heard and the statements that have been made that the administration was going to emphasize increased activity through the U. N., and I see none of it in this program.

Is that a fair statement, that there is no increased activity through

the U. N. in this program?

Mr. Hollister. That is correct; yes, sir.

Senator Humphrey. And is it your feeling that this program as it is presently presented to us is designed to obtain the best results despite the fact that there is no increased activity in the U. N. agencies!

Mr. Hollister. At the time this was evolved that was the idea, Senator. As I have tried to point out, we are asking for flexibility just so we may be able to move as new developments may come along.

Senator Humphrey. Now has there been anything that caused you to change any attitudes on this? You said at the time this program was evolved you considered it to be the best that you could get. Has there been anything that happened in recent months that has convinced either you or the Secretary or anyone else in the administration, that we may very well want to change the emphasis of this program!

Mr. HOLLISTER. There is no present idea of increasing the con-

tribution to the United Nations technical assistance; no. sir.

Senator Humphrey. Is it fair to say then that there is no new

program to meet the Soviet challenge?

Mr. Hollister. No, sir. You said to the United Nations. You were not asking about anything else.

#### NEW ASPECTS OF THE PROGRAM

Senator Humphrey. Is there anything new in this program at all! Mr. Hollister. Yes, sir; there are a lot of new things in it.

Senator Humphrey. What are they?

Mr. HOLLISTER. The very things we want are the things I have been discussing.

Senator Humphrey. What are the new things, Mr. Hollister? Mr. Hollister. We would like to have the Mideast fund of \$100 million, we would like to have \$100 million additional Asian fund, we would like to have the right to transfer another \$100 million under section 401.

Senator Humphrey. That is not new, is it, Mr. Hollister?

Mr. HOLLISTER. No, sir.

Senator Humphrey. We have had the agency fund and we have

had the emergency fund.

Mr. Hollister. And we would like to have certain new authorities to transfer under section 401 from other funds for whatever use the President might see fit.

We also want the right to increase from \$20 million to \$40 million, the fund for any one country from other funds by transfer—and there

may be other items.

We have also asked to have 15 months in order to program 25 percent of our moneys so that we could do a better job in really planning things out rather than be rushed into committing 80 percent of it by April 30 and things of that kind.

Senator HUMPHREY. Those are what you call bookkeeping adjust-

ments?

Mr. Hollister. No, sir; those are our new and important items to give us flexibility in meeting the exigencies that may happen in the next year.

Senator HUMPHREY. Mr. Hollister, I am not going to take any more time here. I just want to say that I have been discouraged and disappointed by what I consider to be the lack of foresight and planning.

When you ask for these wide flexible funds or the flexibility of greater funds, it indicates that there is no plan as such. It is the fact that you would like to have the money in the kitty in case something may develop.

Mr. Hollister. No, sir.

Senator HUMPHREY. Now we saw this in the special weapons funds 2 years ago if you may recall, and we got no specific detail, and later on we found out that there really had not been much done under it. I think it is fair to say that the special Asian regional fund has accomplished very little.

I would like to know what was done under it in specific details. I do not feel that it is right to appropriate money and to authorize

money unless we have some designs of program.

## LONG-TERM COMMITMENTS

For example, is the administration going to commit money to the Aswan Dam?

Mr. Hollister. I don't know.

Senator Humphrey. Is that one of the items in this Near East regional fund?

Mr. Hollister. I cannot tell you because that is still an unsettled

matter.

Senator Humphrey. Under the long-range funds under this bill, do you have any specific projects in mind?

Mr. Hollister. That I could explain to you now?

No, sir.

Senator HUMPHREY. You are just asking for \$100 million a year, the first year \$100 million, and yet we have no specific long-range projects that we are ready to commit ourselves to?

Mr. HOLLISTER. Senator, I am not asking for \$100 million, I am not asking for a cent. What we are asking for is authority to commit for

not to exceed 10 years, not to exceed \$100 million in any one year for long-term projects, not a cent of extra money being asked for, the theory being that if that were granted, there are certain long-term projects which would need a substantial amount of money which could be handled over a period of years in a businesslike way rather than take them out in one year in one big wad, thereby disarranging a lot of other programs. In order to get the money for the Aswan Dam that has been tentatively offered, it meant completely holding up a program which is going forward in Egypt and also transferring from certain other funds a certain amount of money in order to be able to raise that fund. That is what we want to get away from.

Senator HUMPHREY. I understand, you are asking for an authorization to have an accumulated sum of \$100 million for long-range

projects; is that right?

Mr. HOLLISTER. No, sir; we are not asking for an authorization. Senator HUMPHREY. You are asking to be authorized to be able to have that sum of money available.

Mr. HOLLISTER. No, sir; we are not.

Senator Humphrey. What are you asking for?

Mr. HOLLISTER. It is a rather unusual status. It gives no contract authority whatsoever. We want to be able to say to a country, we will make, you might say, a moral commitment, that this is a project we

will go through with over a period of several years.

We are not asking for an authorization for funds. We do not expect to ask for any appropriations under this. There is nothing in the bill indicating that. We are asking for the power to say to a country, "We think that is a project which ought to go forward over a period of 6 or 7 or 8 or 10 years."

Senator Humphrey. I understand, and may I say that I am for the long-range program, very strongly for it, but I would like to know

what the program is.

Mr. HOLLISTER. Senator, if we could tell you what the program was then we would ask for the program, we would not ask for this au-

thority. That is what we are trying to get.

You say we ought to try something new. If we could get all these new things out on a list 1, 2, 3, 4, 5, 6, and 7, a year from now they might all look like last year's fishing worms. You have got to have a certain amount of flexibility in order to meet this very problem which is worrying you.

Senator Humphrey. Is it not true that if you make a moral commitment or if you make a commitment on a long-term project, let's say a 10-year project, then it will be a moral obligation on the part of Con-

gress to back you up?

Mr. Hollister. I would think so.

Senator Humphrey. Therefore in effect while you are not asking

for authorization, what you are asking for is concurrence?

Mr. Hollister. Unless conditions so change that the Congress would deem it unwise to make the necessary appropriations, then we could not

go forward with it.

Senator Humphrey. Well, I must say that that is peculiar legislative I would like to know exactly what you are asking for in terms of long-range programing and long-range authority. You must have something here besides just a general idea. If you are asking for a long-range program, how are you asking for it and in what language?

#### SECTION 421

Mr. Hollister. Sir, would you like to have me read it?

Senator Humphrey. Yes; I would appreciate your explanation of this language.

Mr. HOLLISTER. It is right here in the bill.

The Congress recognizes the desirability of making more effective the assistance provided by the United States through long-term projects for economic development, and recognizes further that increased participation by other governments, international institutions, and private investors in financing such projects would be facilitated if the United States were willing to make longer term commitments

for assistance to such projects.

Accordingly the President is authorized to enter into commitments for assistance to be provided to such projects in accordance with provisions of law applicable at the time such commitments are made: Provided, That at no time shall any commitment made pursuant to this section extend for more than ten years: Provided further, That the funds used to fulfill commitments made pursuant to this section may be taken from, but only from, any funds which may be made available for foreign nonmilitary assistance under this Act or any later Act providing for foreign assistance, and may be used to fulfill such commitments in accordance with the provisions of law applicable at the time any such commitment was made:

Provided further, That not to exceed \$100,000,000 of new funds-

Senator HUMPHREY. Now, this is an authorization then, isn't it? Mr. HOLLISTER. No, sir; you stopped me on new funds, Senator tumphrey. That does not mean it is an authorization.

Senator Green. I think we should allow the witness to finish his

sentence

Senator Humphrey. I merely wanted to emphasize the word "new," Mr. Chairman.

Mr. HOLLISTER. If you will let me finish-

Provided further, That not to exceed \$100 million of new funds which may be made available for foreign nonmilitary assistance under any such Act in any single fiscal year may be applied to fulfill commitments made under this section.

In other words, in any year that there is an appropriation of new funds, any years that there may be an appropriation of new funds, not more than \$100 million of those new funds may be used for this kind of project.

Senator Humphrey. And this item could also, if I understand this language correctly, and I have looked into it some, this item could

include new funds?

This could be a new fund item itself?

Mr. Hollister. This item itself?

Senator Humphrey. This authorization, this figure of \$100 million could be asked for under this language as a new item?

Mr. Hollister. Of course it could be.

Senator Humphrey. That is what I am saying.

Mr. Hollister. Then the Congress would have to approve it. This is not an authorization, that is all I am saying. There is no request for new funds under this at all.

This merely says that of the funds which may be appropriated in the future for the foreign aid program, that if the commitments are made to the extent of up to \$100 million, some of those funds could be applied to these commitments, that is all it says.

Senator Humphrey. I take you back to page 9 where it says on line 20—

Accordingly the President is authorized to enter into commitments or assistance to be provided to such projects—

the words "such projects" referring to the preceding language, the language in lines 13 through 20-

Accordingly the President is authorized to enter into commitments for assistance to be provided to such projects in accordance with the provisions of law applicable at the time such commitments are made.

Mr. Hollister. Yes, sir.

Senator Humphrey. And in this act under section 421, we state there in the first few lines—

The Congress recognizes the desirability of making more effective the assistance provided by the United States to long-term projects for economic development and recognizes that increased participation by other governments, international institutions and private investors in financing such projects would be facilitated if the United States were willing to make longer term commitments for assistance to such projects.

Now language that we read earlier authorizes the President to enter into such long-term commitments, is that right?

Mr. Hollister. Yes, sir, but it authorizes no money.

Senator HUMPHREY. All right.

No. 1: The President is authorized to under the terms of the law? Mr. Hollister. That is right.

#### PROVISION NOT AN AUTHORIZATION

Senator Humphrey. Now we come over here to line 9 on page 10 and we say—

Provided further, That not to exceed \$100 million of new funds which may be made available for foreign nonmilitary assistance under any such Act in any single fiscal year may be applied to fulfillments made under this section.

Now isn't that a ceiling authorization?

Mr. HOLLISTER. Yes; it is a ceiling on an authorization that may later be made, that is right.

Senator Humphrey. However, you have authorized in the beginning—

Mr. Hollister. No, sir; we have not authorized a cent.

Senator Humphrey. You have authorized the President to enter into such obligations.

Mr. Hollister. Yes, sir, not obligations—commitments.

Senator HUMPHREY. Commitments or obligations. If the President enters into a long-term aid program under this act, which if we adopted it as written, we would then have a moral obligation to at least go up to \$100 million a year to fulfill it; would we not?

Mr. Hollister. In the event that they were entered into to that ex-

tent.

Senator Humphrey. That is right; I said up to \$100 million.

Mr. Hollister. I would think so.

Senator Humphrey. So it is a back-door authorization; is it not, Mr. Hollister?

Mr. Hollister. You can interpret it any way you want to, Senator. I am trying to point out what I think.

If you want to call it back-door authorization I am not going to argue with you. I am merely trying to point out there is not an authorization. That it requires an authorization and appropriation each year in order to be made effective.

Senator Humphrey. Let me ask is it a commitment if we pass this

as written? Is it a commitment?

Mr. Hollister. That is what the act calls it, it is a commitment, yes,

sir. It is a commitment if the President makes it so.

Senator HUMPHREY. Senator Sparkman was just saying to me that it is similar to other commitments that we have made under contract basis, that if the President enters into a contract, that there is a moral obligation on the part of the Congress to provide the funds.

Is that true?

Mr. Hollister. I would think that if under this authority the President makes a bona fide commitment that Congress would be—assuming conditions have not changed—willing to provide the funds. Of course, if you have got a deal on with some country and then later find it has gone to the Communist side, or if the country failed to live up to its terms, I assume that the Congress would not make any authorization or any appropriation.

Senator, I want to point out, perhaps it is not well enough understood, that one of the purposes of this kind of long-term authority is to be able to enlist other funds and to enlist the proper cooperation

by the country itself.

A country itself going into something of this kind where it may mean an enormous amount of expenditure of its own funds would

like to know how many years it can count on.

Therefore, it makes its plans—its 5-year plan or its 7-year plan or whatever it might be—and in addition International Bank money, perhaps Export-Import Bank money, moneys from other countries and perhaps even private funds may be enlisted to help out.

It makes it a little easier to plan under authority of this kind.

## COMMITMENTS SUBJECT TO CONGRESSIONAL APPROPRIATIONS

Senator HUMPHREY. Mr. Hollister, may I say to you most kindly that I am for this. I would just like to know what the language means.

In other words, I believe that long-term commitments are vital to

an effective foreign-aid program.

However, I do think we ought to come clean about it. What we are really doing is authorizing the President to make commitments. That is right, isn't it?

Mr. Hollister. Yes, sir.

Senator Humphrey. And, second, we are saying when we authorize the President to make commitments, that there is a moral obligation on the part of Congress to back him up; isn't that correct?

Mr. Hollister. I would think so.

Senator HUMPHREY. Therefore, under this new long-term authority, will the United States negotiate or, with other countries, continue the present practice of telling foreign countries that further money for agreed-upon projects will be subject to appropriations made by the Congress?

Mr. Hollister. I should think that he would have to tell them that. How could they escape that?

Senator HUMPHREY. Well, I want to get the record clear.

Mr. Hollister. I don't see how they could escape saying that because it is so. There is no authorization and no appropriation here. I think to come clean you would have to tell any country you are negotiating with—I should say the International Bank has informed us they would think this was adequate for them to enter into projects in connection with our activities.

In other words, they would feel that it was strong enough to bring

their money in as well.

# THE TECHNICAL EXCHANGE PROGRAM IN THE LABOR FIELD

Senator Humphrey. There is one minor item, Mr. Hollister. I think you have eliminated from the budget request, under technical assistance, the so-called labor-exchange program.

Mr. Hollister. You mean our technical-exchange program in the

labor field?

Senator Humphrey. That is correct.

Mr. Hollister. No, sir; not at all. In fact, it is one of the things I continued in Europe, because I have felt that the activities in the labor field in both France and Italy have been valuable, and it is about the only technical-assistance program that I am continuing bilaterally in Europe outside of the Europen Productivity Agency, because I have felt that it has been most valuable in those two countries.

Senator HUMPHREY. I am happy that you have said that, Mr. Holister, and I asked the question just to make this clear, because a member of the staff of the Foreign Relations Committee has indicated to me in a study of this budget that it is his understanding that you had eliminated the labor-exchange program from the current budget.

There was \$650,000 relating to Italy in particular, there was \$650,000 in fiscal year 1956 for technical assistance in Italy, and under that technical-exchange program there were some 1,200 Italians who came to the United States and 600 have been in the field of labor.

Mr. Hollister. Senator, I would want to correct what I said a

minute ago.

I have been trying as I think the committee knows, as I talked about this morning, to get out of Europe as completely as we can. In stopping some of the activities there I know I continued those two labor programs in 1956.

Whether I have got them as part of the 1957 presentation, I do not know. I would have to verify that and let you know. I don't remember either one of them. But I particularly continued those programs this year while stopping some other European programs.

Senator HUMPHREY. The information I had was that the program

had been very effective in Italy in particular.

Mr. Hollister. I had the same information.

Senator Humphrey. And I was wondering whether or not it was wise to eliminate a program which apparently was doing so well.

#### COMMUNISM IN ITALY

For example, the information furnished me by the director of missions is that the Communists in Italy have some 65,000 activists

combing the entire country to sell the Communist program.

The budget of the Italian Commmunist Party exceeds the entire Italian military defense budget which for 1954-55 amounted to 480 billion lire, or converted at the present rate of exchange to \$775 million.

They have almost unlimited sums of money which are obtained through a variety of subsidies derived from trade arrangements with

Moscow.

For example, the Communist Party imports goods from Russia which are in demand in Italy and for which they receive a 20-percent discount from the prevailing market price and after selling these goods on the Italian market the Communist Party is allowed to retain the discounted amounts for its use inside Italy.

Against this kind of operation which is duplicated on innumerable fronts our technical assistance program is a puny one indeed. We have \$650,000 to combat that program on the technical assistance front

in Italy.

## TECHNICAL EXCHANGE PROGRAM IN ITALY

Mr. HOLLISTER. Senator, I thought my memory was correct. I find that for 1957 we have \$425,000 down under labor for the technical exchange program in Europe, and that is Italy and France, and the European Productivity Agency.

Senator Humphrey. And how much of that is for Italy?

Mr. Hollister. I would have to check that up. Senator Humphrey. But it has been reduced.

Last year you spent \$650,000 in Italy.

Mr. Hollister. It is being reduced because it seems to me the only way in which we can ever carry the burden that we want to carry, that we are trying to carry around the world, is to taper off in certain places, and we have been trying our best to taper off in Europe as the increases come in the rest of the world.

Otherwise we never stop anything. If we continue everything at the rate that it is going and then add new programs all the time, you simply have to keep spending more and more money all the time.

I don't think the Congress is going to vote more and more money

all the time.

Senator Humphrey. My only feeling was that a program that has been as effective as this one apparently was this past year in an area where we ought to be meeting the Communist challenge most effectively, namely, at the labor-management front, should not be tapered off.

Mr. Hollister. I would have to study it and see how much tapering off there is because there are several different kinds of programs—labor productivity program, labor-management program, work with the unions—but what the figures are for this I could not tell you offhand.

## WESTERN EUROPEAN TECHNICAL EXCHANGE

Senator Humphrey. Could we have a breakdown in due time, Mr. Hollister, as to just what changes are being made in this particular program on technical assistance to the European countries?

Mr. Hollister. Yes, sir.

Senator Humphrey. And what cutbacks are being made and where? Mr. Hollister. Yes, sir.

Senator Humphrey. Thank you.

(The information referred to is as follows:)

# Western European technical exchange 1

#### [In thousands of dollars]

Country	Actual, fiscal year 1955	Estimated, fiscal year 1956	Proposed, fiscal year 1957
Belgium Denmark France Iceland Italy Netherlands Norway Protugal United Kingdom Regional projects through EPA Other regional projects USOM support costs Domestic program support State support Interregional projects Interregional projects	18 59 50 2 1, 458 225 1, 062	250 125 280 1, 430 1, 430 706 535 249 225	1, 500 2 100 2 100 2 100 500 (3) (4)
Total	4 6, 448	<sup>8</sup> 3, 800	2, 500

Excludes Spain, Yugoslavia and Joint control areas (Germany and Austria) which are funded separately.
 Atomic energy training.
 Funded separately for fiscal year 1957.

#### ASWAN DAM

Senator Mansfield. Mr. Chairman, could I ask a question? Mr. Hollister, when you discussed the Aswan Dam, you said first that it was a 10-year project.

Mr. Hollister. I don't think I said it was a 10-year project.

Senator Humphrey. Thirty-year.

Senator Mansfield. And that Egypt itself would put up \$900 million.

Mr. Hollister. I said the whole project as I last saw the figures, they were first developed by the International Bank, I saw them first in Istanbul at the World Bank meeting in September. I don't think they have been materially changed though there are minor modifications.

The whole project would have cost \$1,300 million.

Senator Mansfield. That is right.

Mr. Hollister. That includes a whole lot of extras; I think perhaps a certain amount of irrigation ditches. It is to cover the whole thing.

Includes reprogramed prior year funds.
Includes \$500,000 for special labor programs in France and Italy and \$232,500 for multilateral labor activities through the European Productivity Agency. The \$5.5 million illustrative program for fiscal year 1956 presented to the Congress last spring included \$600,000 for special labor projects and \$400,000 for labor activites through EPA.

Senator Mansfield. But of that amount, \$200 million even according to this morning's paper, would still be available to the Egyptian Government on a loan basis from the World Bank?

Mr. HOLLISTER. I have never heard that they have withdrawn that

Senator Mansfield. No; they have not, according to the press.

Mr. Hollister. Yes.

Senator Mansfield. And if I remember your figures correctly, \$900 million would be put up by the host country itself?

Mr. Hollister. Yes, sir.

Senator Mansfield. That would leave \$200 million to be put up 🤋

Mr. Hollister. To raise somewhere else.

Senator Mansfield. And of that \$200 million, we may not be prepared now but we had been prepared last January when Under Secretary Hoover met with this committee, to put up \$55 million along with the British putting up \$15 million?

Mr. Hollister. I think it was \$54.6. That is approximately correct, the British putting up the rest, out of \$70 million, which is the

Senator Mansfield. Yes. That would leave \$130 million yet to be gathered from various sources?

Mr. HOLLISTER. Yes, sir. Senator Mansfield. Would the putting in on a grant basis of this \$70 million by the British and the Americans imply a moral obligation on our part at least to supply the remaining \$130 million?

Mr. HOLLISTER. I would think given the conditions as they are to-

day.

Senator Mansfield. And it would be on a grant basis?

Mr. HOLLISTER. I am sure I could not tell. The time might come

when it would be wiser to make it on a loan basis.

Senator Mansfield. I, of course, would not be willing to go in on any of these projects on a grant basis and especially a multiple-purpose project which would pay for itself. In this country they are supposed to pay under the law completely in a 40-year period.

The life of the project is usually estimated at 100 years. This is a revenue producing matter and I would hope that the administration in considering these so-called economic development projects of this kind and the TVA on the Jordan would once again, if I may repeat myself, operate on a long-term loan low-interest-rate basis.

Now, Mr. Hollister, the testimony today will indicate that there are so many facets to the ICA that it is pretty hard to keep up with all

of them.

Mr. Hollister. I find that myself, Senator.

## FIVE TYPES OF MUTUAL SECURITY ASSISTANCE

Senator Mansfield. Well, you are not alone.

delivered directly to the Armed Forces of a country.

But in the report just released by this committee it is pointed out that there are five different kinds of assistance under the Mutual Security Act, still all of them being carried on by the present ICA and the intervening alphabetic agencies in between.

Military assistance, which consists of weapons and military hardware.
 Direct forces support, which consists of soft goods and civilian-type items

3. Defense support, which consists of commodities and capital equipment furnished for the purpose of enabling a country to maintain larger military forces than it would otherwise be capable of doing.

4. Development assistance, which consists of commodities and capital equipment furnished for the purpose of promoting economic development in a coun-

try not receiving military assistance.

5. Technical cooperation, which consists of technical advice and demonstration supplies and equipment.

Is that correct?

Mr. Hollister. Yes, sir. Senator Mansfield. Why would it not be better to simplify this a little bit so we could all understand it more clearly and have the Congress just authorize three types of aid.

1. Military assistance, anything from jet planes to shoelaces which

is delivered directly to the military forces.

2. Economic assistance, anything in the form of capital equipment.

3. Technical assistance, anything in the form of knowledge, tech-

niques, or know-how.

Mr. Hollister. I think that makes a lot of sense, Senator. I do not know whether you were here this morning when I said that I had thought myself when I first began to get into the intricacies of this work, when I started last summer, that the whole thing was unnecessarily complicated and that perhaps rewriting the legislation would be a very wise thing to do.

Senator Mansfield. I recall that.

Mr. Hollister. Time moved pretty fast and I found we were so involved in planning and the budget and everything that to try to

change it now would be very difficult.

I think it deserves a great deal of consideration. Maybe we should not rewrite the whole act from a point of view of definition, approach, and areas and all that kind of thing. Senator Green pointed out this morning how complicated these areas are. We talked about the Asian fund and how its area extended through Afghanistan and the fact that the Near East fund also extends through Afghanistan.

On the other hand, when we talk about the Near East, South Asia, and Africa from the point of view of the State Department or ICA organizational setup, the countries included go all the way over to

Burma.

It is complicated. I think that perhaps a fresh approach sometime would be very wise. Those are the three categories in which aid

Senator Mansfield. Mr. Hollister, if I were to offer an amendment to the present bill, and I intend to do so, simplifying these particular

categories; would it have your approval?

Mr. Hollister. I think the only thing is, Senator, we would have to trace it through and see what complications it might raise, because you might find by the time you study this whole bill, get the references from one section back to another section, that to do that alone might raise more complications than it would unravel.

I would want to be sure we had made a complete study to see that we would not complicate it by just doing that when, if we do want to rewrite it, perhaps we had better consider a whole fresh approach to

the whole legislation.

Your theory is a sound one.

Senator Mansfield. Will you begin tracing complications, then, so we will have an answer when the amendment is offered?

Mr. Hollister. I will try to.

## RESERVATION OF FUNDS

Senator Mansfield. One more thing.

Could you now or could you have your staff furnish this committee with a simple detailed explanation of just what a reservation of funds

Mr. Hollister. I will ask for that.

Senator Mansfield. The reason I make that request, Mr. Hollister, is this: As I interpret the reservation of moneys, it means that you can allocate them for any purpose at all. It is not a firm, binding commitment, and if, for example, I do not know if this has been done, but the \$614 million at least which was reserved in the last 5 hours of the last day of the last fiscal year, very likely those funds could have been unreserved the next day in the first day of the present fiscal year, and I want to get that straight and find out just how strong and binding the word "reservation" is in this respect.

Mr. Hollister. Yes, sir. Of course, that is on the military side

of the program.

Senator Mansfield. I will make my request then of the-

Mr. HOLLISTER. I will see that it is secured for you.

I just want to point out that on the economic side of the program there is no reservation of funds. It is either committed or not committed.

Senator Mansfield. So will you coordinate that request with the proper authorities?

Mr. Hollister. Yes, sir.

Senator Mansfield. That is all, Mr. Chairman. [See p. 886.]

#### THE ASIAN FUND

Senator Smith. Mr. Chairman, I would like to ask two small questions.

Mr. Hollister, could you give us for the record a breakdown of what was spent in the Asian fund, \$100 million, last year?

Mr. Hollister. There was none spent last year. It did not exist.

Senator SMITH. I mean fiscal 1956.
Mr. Hollister. The current fiscal year?

Senator Green. How much has been obligated?

Senator Smith. That is right.

Mr. Hollister. Not more than two or three million dollars, as I remember.

Senator Green. We had a report somewhere, I had a memorandum, \$40 million out of \$100 million.

Mr. Hollister. Has been obligated already.

Senator Green. Yes.

Mr. Hollister. Don't forget this is a not a 1-year fund, this is a 3-year fund.

Senator Green. I am aware of that.

Mr. HOLLISTER. We are planning it all the time, and we have tentative obligations which are very small so far.

Senator Green. I want to be armed for that when we get to the floor with this bill.

Mr. Hollister. We will get a complete breakdown of the different categories, what is obligated, what is tentatively allotted, what is firmly allotted to this program.

Senator Green. I am speaking now though of the Asian \$100 million that was authorized last year.

Mr. Hollister. I understand.

Senator Green. And appropriated last year, so we can be looking forward to the next \$100 million for fiscal year 1958.

Mr. Hollister. Yes.

(The information referred to is as follows:)

# ICA STATEMENT ON OBLIGATIONS AND PROGRAMING OF THE ASIAN ECONOMIC DEVELOPMENT FUND

As of April 30, obligations under the President's fund for Asian economic development amounted to \$4,365,000. In addition, there are a number of programs which are nearing the stage where they qualify for the obligation or funds under statutory requirements. It is currently estimated that obligations from this fund will, by June 30, amount to about \$40 million.

The principal purpose of the Asian development fund is to finance projects which will increase mutual cooperation and self-help among the countries of Asia. At the same time, the executive branch indicated to the Congress last year that the fund might have to be called upon to meet extraordinary requirements for bilateral aid, if such requirements arose.

The programing for the fund has had to take into account both of these objectives.

#### REGIONAL ACTIVITIES

Funds are currently programmed for two major regional projects. They are:
1. A proposed Asian nuclear center which will be instrumental in carrying out the President's atoms-for-peace program in this area on a multilateral basis (\$20 million).

2. A regional telecommunications system in the Thailand-Vietnam-Laos area, which should greatly facilitate the ease of communications among these presently fairly isolated countries (\$2.5 million).

In addition, there are presently under active consideration a number of projects for which proposals have been submitted to ICA. These projects fall generally into three categories:

(a) The development of badly needed road and rail communications between countries which are geographically adjacent but currently isolated from each other through lack of such communication facilities.

(b) The establishment of regional demonstration and technical training centers in such activities as the training of skilled labor, inland water transportation, agriculture, forestry, fisheries, community development, public administration, and the like.

(c) The development of natural resources, such as waterpower, among 2 or more benefiting countries, or the development within 1 country of a natural resource, such as mineral deposits, which is of vital importance to 1 or more other countries in the region.

A rough estimate of the cost of these projects amounts to about \$70 million.

#### BILATERAL PROGRAMS

During the course of the year, a number of emergency requirements arose in the region. One of these was a \$4.1 million program for Indonesia, for which funds were obligated before April 30. Other requirements of this nature may compel ICA to utilize as much as \$40 million for such programs.

#### SUMMARY

The total requirements currently programmed against the President's fund for Asian economic development for obligation this fiscal year or early next fiscal year amount to \$66 million, leaving a balance of \$34 million.

Against this \$34 million there are currently projects under consideration, which in total amount to some \$70 million, i. e., some \$35 million more than is

available under the \$100 million appropriation made to this fund in fiscal year The growing interest of the Asian countries, as evidenced by the project proposals which they are submitting and which have received only the most preliminary screening, would justify a high level of programing under this fund in fiscal year 1957.

#### DEVELOPMENT ASSISTANCE FOR INDIA

Senator Smith. Now Mr. Hollister, in volume I of this breakdown, page 82, there appears under the heading "Asia," development assist-

I find that in 1955 the figure was \$70,500,000, in 1956 the figure was

Mr. Hollister. Yes, I have it here. This is the Asian regional

Senator Smith. Development assistance, I am speaking of.

You will notice that in 1955 it was \$70,500,000, in 1956 it was \$51 million, which I understood was a reduction from what was asked of \$71 million, and now we show 80 million.

My specific question is whether that 80 million for development

assistance allows anything for India.

If not, what is our Indian program?

Mr. HOLLISTER. I think that that is a classified figure, the breakdown of that.

Senator Smith. I could not find it anywhere else in these figures.

Mr. HOLLISTER. I will find it for you in a minute.

Senator Smith. If it is classified I could ask the question in execu-

Mr. Hollister. That breaks down into 70 for India, 5 for Ceylon, 1 for Nepal, and 4 for Indonesia.

Senator Smith. Thank you. I wanted to know what that breakdown was.

Mr. Hollister. It is all on page 10. Senator Smith. On page 10 of this?

Mr. HOLLISTER. Yes, it gives it all there and it shows the figures, the ones that are classified, the ones that are not. It is a little hard for me to pick up which are classified and which are not offhand.

Senator Smith. Thank you. That is all, Mr. Chairman.

Senator Green. Any other questions?

Senator Humphrey. Mr. Chairman, may I ask a question with ref-

erence to this India fund.

We had the Ambassador before us some time ago, Ambassador Cooper, and he encouraged the committee to take a much more generous view toward Indian economic development assistance in the light of her new 5-year plan.

What is the increase in this budget request for India?

Mr. Hollister. For India 70 is being asked for next year, as against 50 which is appropriated this year.

Senator HUMPHREY. How much did you ask for last year? Mr. Hollister. I think it was 70, and Congress cut it to 50. Senator Humphrey. You are asking for 70 again this year?

Mr. Hollister. The same as last year, yes.

Senator HUMPHREY. Does that fall in line with the recommendations of Ambassador Cooper?

Mr. Hollister. I would doubt if it does entirely.

I think Ambassador Cooper would be asking for more.

Ambassadors often do.

Senator Humphrey. What do you feel about this sort of a statement. The publisher of the Minneapolis Star and Tribune, Mr. John Cowles, and I am reading here from a news story:

Publisher John Cowles of the Minneapolis Star and Tribune, a leading Eisenhower supporter, has stated in his booklet Report on Asia, February 1956 (based on a month of interviews in Asia): "I favor our giving India a line of credit of a billion dollars payable at the rate of \$200 million a year annually, to help India with its new 5-year plan."

Mr. Hollister. What do you want me to say about it?

Senator Humphrey. What is your view on that?

Mr. Hollister. I do not approve of it.

Senator Humphrey. You do not approve of it?

Mr. Hollister. No, sir.

Senator HUMPHREY. Do you feel that the funds in the budget request are adequate?

Mr. Hollister. Adequate for what?

Senator Humphrey. For India's development program.

Mr. Hollister. Well, it depends on whether you are looking at it from India's point of view or from what we think we ought to do.

No country feels I believe that what we do for them is adequate, at

least you have very few who do.

Jack Cowles and Zellerbach and Paul Hoffman and Henry Morgenthau and at least one other distinguished person recently have come out with statements that several hundred million should be devoted to assist India in meeting—

Senator Humphrey. Not grants, loans, Mr. Hollister.

Mr. HOLLISTER. Yes, but substantial sums from our funds should be—

Senator Humphrey. Of loans.

Mr. Hollister. Loans?

Senator Humphrey. Yes, credits.

Mr. Hollister. All I am trying to point out is there are people who feel that we ought to advance all the money or most of it which India may need in its next 5 or 6 years' development.

As is well known, there are a lot of people who feel that perhaps India has not been, you might say, as completely cooperative as some

would wish.

The matter has been very carefully studied by our organization, by the State Department, and this is the figure we have come up with as what seems appropriate to offer as a program to the Congress for India.

All the factors that come into it, I could talk for some length on, perhaps some of the facts ought to be brought up in executive session,

Senator Humphrey. I merely wanted to ask whether or not this request was the result of the study group on Indian economic assistance, particularly as it relates to the Ambassador's recommendations to the Department.

Mr. HOLLISTER. To what study group do you refer?

Senator Humphrey. You must have some kind of a study made in each country and our relationship to the country economically.

Mr. HOLLISTER. Our people meet and each country group meets. If the military is involved the military people are in too.

If it is not a military problem, the State Department people and our people discuss all these things. Different views are reconciled and finally they come up with recommendations to me which in turn are ultimately approved by the Secretary of State.

That is the way we work out these programs. An awful lot of

work is done.

Senator Humphrey. Yes; I understand that, sir.

I am not being critical of the amount of work, don't misunderstand me.

Mr. Hollister, I understand.

Senator HUMPHREY. I wanted to find out whether or not the study on the spot in India by our mission there had recommended this sum or whether or not this was a sum that had been arrived at here?

Mr. Hollister. I cannot remember what was recommended by the

ission

Of course that is just one of the factors we take into consideration. I do not know if it would be proper to give in every case exactly what the mission did, because we would be put in a rather embarrassing position if we said what the mission did or what the Ambassador comes up with, unless they want to make it public themselves, and sometimes Ambassadors do.

But we do have to take into consideration all the factors.

Now it is generally true that an Ambassador and a mission head are pretty keen about the country they are in and they get rather enthusiastic over that particular country. That happens in a number of cases.

We have to approach this as carefully as we can, weighing all the different factors before we reach a conclusion.

#### ASSISTANCE TO FORMOSA

Senator Humphrey. What is the comparison between the total amount of development assistance to India as compared to Formosa?

Mr. Hollister. I should say it was considerably smaller. But in Formosa we have an army of I guess three or four hundred thousand people that are ready to fight. We have a good many problems there which are not applicable to India whatsoever, I mean the comparison of the two would seem to be something you cannot possibly make.

Senator Humphrey. I agree with that except I am afraid our conclusions as to which is the most important would be somewhat dif-

ferent.

Mr. HOLLISTER. Yes, sir; this is one of those problems on which there is very great differences of opinion.

Senator Humphrey. Are we approximating \$200 million for Formosa?

Mr. Hollister. Defense support for Taiwan is \$86 million.

Senator Humphrey. Defense support?

Mr. Hollister. Yes.

Senator Humphrey. That is exclusive—that is the economic?

Mr. Hollister. You see for India we are asking for \$10 million for technical cooperation and in Formosa only \$3,400,000, so they come out almost exactly \$10 million apart when you add them all together.

Formosa is \$90 million and India would be \$80 million on that basis. Senator Humphrey. In India, there are 385 million people and in Formosa there are 9 million?

Mr. Hollister. Do you want to compare India and Korea? You will find quite a different situation there, too. Those comparisons, Senator, are absolutely valueless, if you want my opinion on the subject.

Senator Humphrey. I appreciate your opinion.

I just happen to feel that again the emphasis here does not relate to what I constantly hear is the challenge, and that is what I am

concerned about.

Mr. Hollister. Yes, but the first challenge is a military one, Senator, and the reason we have these problems in Korea and Taiwan and Vietnam, Pakistan, and Turkey is because we have a military situation.

There is no military problem in India.

#### COMMUNISM IN INDIA

Senator Humphrey. There are other ways that the Communists move besides militarily.

Mr. Hollister. I realize that.

Senator Humphrey. I have been hearing of late that the most recent Communist threat is not as openly military as it seems to be economic and political, and I am concerned as to whether or not we are designing this program to meet that kind of a threat.

Mr. HOLLISTER. We are trying to. We are only too glad to get any

suggestions anyone may have.

But we obviously cannot put any program on the basis of so much per head.

#### TECHNICAL ASSISTANCE

Senator Humphrey. Have you increased the funds for point 4? Mr. Hollister. A little bit.

Senator Humphrey. And to where will those extra funds be pri-

marily dedicated?

Mr. Hollister. I think they are spread out over 20 or 30 different countries. There is a limitation, Senator, in how much you can increase that program. There is a limitation on the number of technicians you can get, limitation on the ability to carry out those things properly, the absorbing power of the country with which you can deal.

Our bilateral technical-assistance programs in the Near East and Africa, Asia, and Latin America are \$12 million, or 10 percent higher than in 1956. Last year's figure included an 18-month appropriation for UNTA rather than the 12-month amount sought this year, thus making this year's \$157.5 million appear to be only a total increase of \$5 million rather than \$12 million.

Senator Humphrey. All right, Mr. Chairman, I will forego any

more questions.

Senator Green. Any other questions any Senator would like to ask?

If not, thank you very much for your attendance.

There will be a meeting of this committee in executive session tomorrow morning at 10:30 in the committee room in the Capitol.

(Whereupon, at 4:35 p. m., the committee was adjourned.)

# MUTUAL SECURITY ACT OF 1956

# TUESDAY, MAY 8, 1956

United States Senate, COMMITTEE ON FOREIGN RELATIONS, Washington, D. C.

The committee met, pursuant to call, at 10:30 a.m., in the committee room, Capitol Building, Senator Walter F. George (chairman) presiding.

Present: Senator George (chairman), Green, Fulbright, Sparkman,

Humphrey, Mansfield, Wiley, Smith, Langer, Knowland, and Aiken. Also present from the executive branch: A. B. Horn, Jr., Department of State, U/MSA; Guilford Jameson; Deputy Director for Congressional Relations, ICA; Harry Carter, OASD/ISA; J. W. Doolittle, Jr., ICA; Capt. D. J. Wagner, USN, OASD/ISA; L. Wade Latham, Department of State, NEA; Col. H. H. Critz, Department of Defense, ISA; S. Silver, ICA-O/NEA; and Philander Claxton, Department of State.

The CHAIRMAN. We have now reached the point where we can go into the detailed consideration of the mutual security program. Mr. Allen, Mr. Dorsey, and Mr. McGuire are here this morning on the

Middle East, Africa, and south Asia.

Mr. Secretary, we will hear from you first, or anyone you wish to call on, to present a particular phase of this matter to us.

# STATEMENT OF GEORGE V. ALLEN, ASSISTANT SECRETARY OF STATE, NEAR EASTERN, SOUTH ASIAN, AND AFRICAN AFFAIRS

Mr. Allen. Thank you, Mr. Chairman.

I have a prepared statement, which, with your permission, I would like to introduce into the record.

The CHAIRMAN. Yes; we will be glad to have the full statement incorporated.

(Statement of George V. Allen is as follows:)

STATEMENT OF GEORGE V. ALLEN, ASSISTANT SECRETARY OF STATE FOR NEAR EAST-ERN, SOUTH ASIAN, AND AFRICAN AFFAIRS BEFORE THE COMMITTEE ON FOREIGN REALATIONS SENATE

Mr. Chairman and members of the committee, I would like to discuss with you some of the political and economic problems of the Near East and Africa and the relationship to them of the mutual security program. Specifically, this area includes Greece, Turkey, Iran, the Arab States and Israel, and the Continent of

#### IMPORTANCE OF AREA

The importance of this area to the United States economically, strategically, politically, morally, and culturally is too well known to this committee to warrant detailing. It is clearly in the interest of the United States to promote peace and stability throughout the area, to achieve and maintain friendly relations, and to assist these countries in their economic development as a means of removing the root causes of discontent and political instability. Throughout the area there is a tremendous, stirring drive for change and improvement. Standards of living are frequently as low as can be found anywhere in the world, yet there is an awareness that improvement can be had and that the material benefits of 20th century civilization are not unattainable. But just how these changes can come about peacefully and without chaotic disruption of existing situations is not always clear either to the peoples or their governments. Many of these states achieved their full independence only within the last 10 years, others are in the process of becoming independent, and still others have barely started on the road. Yet the political ferment and economic aspirations are fundamentally the same among all these peoples and States.

They require assistance if the changes and improvements in economic status which must come are to be achieved peacefully and with stability. The programs in which we have been engaged have been designed and administered so as to assist in accomplishing these objectives. Much has been accomplished but much

still remains.

Assistance, to be effective, must recognize and respect the drive for the maintenance of independence inherent in the area. The important element in improving living standards and in achieving economic stability is recognition of the problems and consciously directed action toward their solution by the governments of these countries. It is only then that outside assistance can be effective. Favorable developments in this direction have taken place in nearly all the countries.

#### BAGHDAD PACT

Coupled with the need for economic development is the necessity for providing for collective security against aggressive forces. The past year has seen the formation of the Baghdad Pact—a collective security arrangement among Turkey, Iraq, Iran, Pakistan, and the United Kingdom. This arrangement provides an important link between NATO in the West and SEATO in the East. It is encouraging that the pact nations not only joined in their collective defense, but have emphasized the importance of the pact organization in considering mutual problems of economic development. The United States supports and encourages the pact, though we believe that our own interests and those of the area are such that we should not join it at the present time. However, the United States has joined the Economic Committee of the pact, which concentrates on problems of economic development common to countries of the area.

As this committee is well aware, recent events in the area have made doubly difficult the accomplishment of United States objectives. Internal pressures are so acute that frequently disruptive forces overtake desires for peaceful evolution and development.

#### SOVIET AID OFFERS

It is this factor which had made recent Soviet bloc moves so important. Soviet offers of economic assistance in any of several forms are not inherently bad. Directed solely and honestly toward economic development of the area, such offers would be welcome. But, viewed in the light of Soviet historical aspirations, and examined in terms of the obvious objectives of each offer, these moves pose a very real threat to the peace of the area. In the past year the Soviet bloc objective first of eliminating all Western influence from the area and, second, of dominating it themselves, has remained unchanged. Soviet tactics, however, have changed markedly. The Communist posture of the area used to be one of threat and thinly veiled attempts to subvert Near Eastern governments. The Soviet bloc is currently stressing the line that they stand in the van of the strugglers against "imperialism" and have shown a willingness to support the foreign policies and claims of the governments of those Near East states which are immediate Soviet targets in the area. This "new look" has been accompanied by offers of the use of the Soviet veto in the U. N. declarations of solidarity, offers and deliveries of Soviet bloc arms, attractive-looking offers of trade agreements, technical assistance, loans and grants for economic development, invitations to visit the U. S. R. and cultural missions. It goes without saying that with Soviet aid come Soviet "technicians." In its penetration of the area the Soviet Government makes the effective pretense that no strings are tied, no affiliations or commitments implied, and in fact it encourages "neutralism."

#### ARAR-ISRAELI DISPUTE

The primary vector of the Soviet virus has been the unresolved quarrel remaining from the Arab-Israel hostilities of 1948. Egypt's fear of Israel's military superiority motivated the Egyptian-Czech arms deal of September 1955. The large-scale deliveries of Soviet bloc arms to Egypt understandably arouses considerable apprehension in Israel and pressure mounts to strengthen the Israel military forces to counter deliveries to the Arabs. The frightening prospects of a devastating arms race or even a resurgence of hostilities are thus enhanced. United States policy is aimed at the achievement of a peaceful and equitable settlement of Arab-Israel differences. Our goal in the area is the permanent security of the States there. Their future peace and prosperity will not rest primarily upon arms, but upon the international rule of law and the establishment of friendly relations among neighbors.

# ACCOMPLISHMENTS OF TECHNICAL ASSISTANCE PROGRAM

We are proud of our record of accomplishment in the Arab States and Israel in the fields of technical assistance and economic development. Progress has been fostered and the sovereign independence of the nations of the area has been strengthened as a result of our efforts. Plans have gone forward for the harnessing of the rivers of the area, the Nile, the Jordan, the Litani, and the Tigris. New methods of attacking disease and problems of inadequate production have been devised. Roads have been built. We need to continue and intensify our efforts along these lines in order to show the near eastern peoples that the peaceful economic and social development to which they aspire may best be obtained through cooperation with the free world, not the Communist bloc.

#### GREECE AND TURKEY

The northern part of the Near East, consisting of Greece, Turkey, and Iran, is a strategic area along the iron curtain and all three countries are growing in economic strength. Greece and Turkey are members of NATO and are also allied with Yugoslavia in the Balkan alliance. Iran and Turkey are members of the Bagdad Pact along with Iraq, Pakistan, and the United Kingdom. Geographically the members of NATO and the Bagdad Pact form an uninterrupted arc running from above the Arctic Circle in Norway through Pakistan. Greece, Turkey, and Iran are at the center of this collective-defense arc, and each of them belongs to one or both of these defensive associations.

Turkey, as a comparatively new republic, has pressed forward rapidly with a program designed to convert it from an underdeveloped country into a modern state. It has taken tremendous strides in accomplishing this transition. A key element has been an economic development program which has stretched Turkey's own means to the limit and which has led to serious internal and external financial difficulties. To meet this problem the Government has now pledged itself to undertake a rigorous economic stabilization program. If Turkey's efforts to develop a sound economy are to be successful, and if Turkey is to maintain its strong position on the strategic eastern flank of NATO, and its key place in the collective security arrangements of the area, it must have continued assistance.

Greece's traditional friendship for America, its strategic location, and its important place in the NATO defense structure are key factors in the United States interest in Greek welfare and stability. The greater part of the large amounts of United States aid received in the past was used up immediately in defending the country against armed Communist attack. While Greece is still one of the poorest of the NATO countries, it has made remarkable economic progress since the end of the Communist guerilla war. But its strategic location requires the maintenance of defense forces in the NATO structure beyond the capacity of its own resources if its economic development is to continue.

#### IRAN

Iran has abandoned its traditional neutrality by adhering to the Baghdad Pact. This direct participation in the free world collective security system has called forth unfriendly and even threatening reaction from the U. S. S. R. with which it has a 1,200-mile common frontier.

Iran's large economic development program is proceeding. We have long been interested in helping Iran to carry out its plans for economic and social

improvement. Partly due to demands placed on it by this program and partly because the Iranian economy has not yet fully recovered from the disruption caused by loss of oil revenues following nationalization, Iran has not been able to balance its ordinary budget despite its reviving oil revenues. Various internal reforms now underway are directed at this problem. The importance to United States objectives of supporting Iranian efforts toward economic development and its continued alinement with the free world in the face of Soviet threats, cannot be overemphasized.

#### DEVELOPMENT OF AFRICA

Africa is a tremendous continent, four times the size of the United States, rich in mineral resources, and in most of its area far behind in achieving 20th century development. It is all too clear that the Communist bloc is well aware of the potential of Africa and is making a concerted effort to penetrate the continent,

The tempo of social, economic, and political change has increased tremendously during the past year. The problem of developing policies which further our national interests in Africa is complex indeed for this is a continent of as great diversity in social, economic, and political features as in climate and topography, Here we must deal wth both independent countries and territories in varying stages of political evolution. All of them also are in varying stages of social and economic underdevelopment, and are faced with all the usual impediments With those areas in a dependent status our relationships must fall into a triangular pattern with the Colonial Powers. This requires that our policies relating to the dependent territories must be reconciled to our national interests in both the metropoles and the territories, and to their respective interests which are at times conflicing. The United States desires that the peoples of Africa progress and share in the social, economic, and political freedoms and advantages of the West. Beyond this the continent's human and natural resources contribute very significantly to the strength of the Western World. Our interest includes continued access to Africa's important and in some cases vital supplies of a number of essential materials including uranium, industrial diamonds, copper, manganese, cobalt, beryl, asbestos, chrome, rubber, zinc, lead, corn, cocoa, and sisal. It includes also strategic airbases and communications facilities, particularly those spotted across the northern part of the continent.

Africa, probably more than anywhere in the world, is a crucial testing ground of the good judgment and leadership of the Western Powers. that the United States through the mutual security program strengthen its ties with, and support, the development aspirations of the independent nations of Africa. It is equally important we work with our allies in recognizing the aspirations for independence and development of dependent peoples. We and our western European allies are directly involved, and the eyes of the underdeveloped peoples everywhere are upon us. Here we must collaborate in dem-

onstrating conclusively the superior values of free world ideals.

# REGIONAL ASSISTANCE

The bilateral country aid which is proposed in the mutual security program is essential to assist in meeting the problems of the area. But the Soviet economic offensive, the emergence of major economic crises, and the growing awareness within the area of the multilateral nature of some economic problems dictate a new approach in achieving our objectives through the mutual security program. It is for this reason that we are requesting a new, flexible Middle East and Africa authorization of \$100 million,

# SITUATION IN SOUTH ASIA

I should like now to turn to South Asia. The five south Asian countries, India, Pakistan, Afghanistan, Ceylon, and Nepal, however different in some respects, are profoundly alike in their basic national goals. These goals are the maintenance of political independence and the achievement of economic strength. Our national situation in the early years of our independence was essentially that of the south Asian nations today. But the pace of political and economic developments is more rapid in the world of today, and the ideology of communism offers less-developed countries a pattern for economic growth which neglects the cost to individual and-in the end-national liberties. Awareness of the rapidity of economic change adds urgency to the awakened demands of the newly independent peoples of south Asia for improvement of their living standards. Soviet bloc offers of economic assistance in various forms, while holding dangers known to the governments and peoples, are tempting because they coincide in time with these exigent national aspirations.

As we said last year, economic improvement in the less developed countries is extremely important to us. Vast differences in standards of living constitute a constant source of irritation in international relations at a time when strength and cooperation are essential. The determination that the extension of assistance to the countries of south Asia is in our national interest is equally valid today. What has become even clearer in the last year is the nature, the extent, and the drive of the Communist bloc economic wooing of the free nations of Asia. That this activity is in one sense a compliment to the effectiveness of our own assistance programs in the area makes it no less a danger to the independence of these nations and, hence, to our interests.

The importance to us of the freedom and independence of the south Asian countries can, perhaps, be more keenly appreciated if we think of the consequences if they were to become committed to communism or disaffected with the free world. These five countries contain almost one-fifth of the world's population. They have some 3,000 miles of common border with the Asian lands now dominated by the Communists. South Asia is a key area linking the Near East and the Far East and dominates the communication lines between Europe and the Far East. The countries have important amounts of scarce materials. In one year, India alone supplied the United States with 41 percent of our manganese imports, 68 percent of our kyanite imports, 57 percent of our mica imports, and over 95 percent of our jute product imports. Thus, geographical, commercial, and strategic interests reinforce our desire to see these Asian peoples remain free and advance economically.

#### DEVELOPMENT OF INDIA

India's 375 million people have made remarkable, if modest, advances under India's first 5-year plan of economic development. However, India will have to make even greater efforts if it is to reach the development goals of its second 5-year plan. This plan, which commences this April, aims at an increase of national income of 25 percent by 1961, achieved through expenditures more than double that of the earlier plan. Even with new taxes, new borrowings, and large deficit financing, the plan requires external assistance of \$1.7 billion if it is to succeed. Before the visit last winter of Messrs. Bulganin and Khrushchev, the Soviet bloc had made offers of economic assistance to India. These offers have now been substantially increased. The basis for continuing our aid to India has, however, not been changed by these events. India wants and intends to preserve the values of freedom and democracy. Its economic system may become less like our own; we may continue to have different views on the best way to preserve peace; but with our basic identity of values, we can with good will compose our differences. Our aid is an importance evidence of our belief that India will continue to demonstrate that a free Asian nation can meet the desires of its people for progress under a democratic system.

#### PAKISTAN

Pakistan has continued its adherence to the free world's system of collective security. In addition to its membership in the Southeast Asia Treaty Organization, it has joined three of its neighbors and the United Kingdom in the Baghdad Pact Organization. Pakistan also in the last year established a new constitution and has become a republic. Although the financial demands of its defense establishment and commitments are substantial, and both east and west have had severe floods this year, Pakistan has continued its valiant efforts in the field of economic advancement. Pakistan has also been evolving a new, comprehensive 5-year plan of development. Pakistan looks to its partners in the free world for the assistance necessary to supplement its own defense and development efforts.

#### AFGHANISTAN

The impact of the Soviet bloc offers of assistance on the less developed countries of Asia has perhaps been greatest in Afghanistan. The seeds were dropped on ground fertilized last spring by the flareup of Afghanistan's dispute with neighboring Pakistan over Pushtunistan. This dispute with Pakistan, and

Afghanistan's intense desire for hastened economic improvement created a situation of receptivity to massive Soviet-aid offers. Following earlier loans for various projects, the Soviet Union offered Afghanistan a \$100 million line of credit during the Bulganin-Khrushchev visit. The terms of the loan, 30 years at 2 percent interest, were appealing and Afghanistan signed an agreement.

Although Afghanistan has assumed a heavy mortgage on its freedom, the interest of the United States in Afghanistan's continued independence has not been changed by these events. To this end, we are also concerned in strengthen. ing Afghanistan's ties with its free neighbors and the United States. We have demonstrated the genuine nature of our interest in Afghanistan in many ways, including the extension of loans and grants totaling almost \$50 million since 1951.

Nepal has taken further steps to strengthen its political system and undertake a more comprehensive attack on its economic problems. The King has announced that Nepal's first elections will be held in October 1957, and has meanwhile appointed a new Prime Minister and Cabinet. Nepal has introduced a new 5-year plan of economic development which includes the much needed expansion of its internal and external transportation and communications system. The Prime Minister has expressed particular hopes for aid from traditionally friendly countries.

Ceylon, with whom we have had the friendliest of relations, is an island republic whose continued independence and economic development is extremely important to United States objectives. With its great dependence on exports for a substantial part of its national income, Ceylon faces difficult problems of development. Recently national elections resulted in replacement of the former government-one whose officials were most outspoken in the support of free-Its electoral defeat was based on internal, domestic consideraworld objectives. tions rather than on matters of international relations though some changes in foreign policy are to be expected. Ceylon is an important member of the free world, one whose government and people are dedicated to economic improvement. And from the point of view of United States interests, one of the most significant factors is that the governmental change was accomplished through democratic processes.

Our programs of assistance are an essential arm of our foreign policy. They give substance to our support of the aspirations of free people to remain free and to become economically strong. They are of vital importance both to the countries of south Asia and to the objectives of United States policy.

Mr. Allen. I would like to make, if I may, just a couple of points orally at this time, then ask if you would hear a few words from our representatives from ICA and the Defense Department.

The CHAIRMAN. Go right aread.

Mr. Allen. This area that we are considering this morning, Africa, the Near East, and south Asia, extends on the map from Casablanca to Calcutta, and from Athens to Cape Town.

All the general reasons for economic aid apply, of course, to this area but with particular significance, I think, for two reasons-

Senator Green. Mr. Chairman, I wonder if the witness would rather wait until the end of his statement before questions are asked, or should we ask them as he proceeds?

The Chairman. Mr. Secretary, did you hear the Senator? Do you prefer to make your statement first, before answering questions? Mr. Allen. I would like to make just two quick points if I could,

and for about 3 or 4 minutes.

The CHAIRMAN. Before answering any questions?

Mr. Allen. If you would, please.

The CHAIRMAN. All right.

#### DEVELOPMENT OF NEAR EAST TOWARD INDEPENDENCE

Mr. ALLEN. The point that I would like to invite attention to particularly is that in this area we are considering this morning, the development toward national independence is extremely rapid, almost breathtaking. No day do you read a morning newspaper without seeing some new development in this area toward self-government and independence of formerly dependent territories.

If we take a hurried run across the map, starting with the subcontinent of Asia, which includes India, Pakistan, Burma, and Ceylon, you have in that one group of countries, all of which have become independent since 1947, a total of more than a half billion people.

Going over now to Iran, a significant development in the full independence of Iran took place last year. Iran came out of a terrific struggle over the question of the development of the oil resources of Iran, in which, you will recall, the Prime Minister of Iran, Mossadegh, canceled the British concession. For 3½ years Iranian oil was not on the world market. It was finally brought back to this market through a mutually satisfactory agreement with the Iranians, in which an international consortium develops the oil in Iran today.

The Iranian people are satisfied with it, which they never were before, because they felt that one great oil company, which employed about 30,000 people, and by far the largest industry and employer of labor in Iran, had such a dominating position that it was a sort of

imperialistic position of a foreign country in Iran.

The Iranian people now, for the first time, feel that they are on top,

that they are running affairs.

There were 2 British bases in Iraq, 1 great airbase at Habbaniya, near Baghdad, and another navy base down near Shahpur. Only last week, I believe, the last British vestige of control in those bases discontinued. There was a ceremony a few months ago in which the British flag was drawn down and the Iraq flag was put up.

Jordan lies next and became a member of the United Nations only last November, when the new additions to the United Nations took

place.

You have been reading in the newspapers very recently that a Jordanian was placed in command of the Jordanian Army for the first time, just about a month ago, when the British General Glubb Pasha was dismissed.

The last British troops are just leaving the Suez Canal in the course

of this month.

Going over into Africa, Libya, just beyond Egypt—we ought to have all of Africa shown on our map, is a new state that just became a member of the United Nations 2 or 3 months ago. There were two additional states in Africa, Tunis and Morocco, which have just been given their independence in the last month.

The Sudan became independent last month. We have a new American Ambassador who is arriving in the Sudan for the first time,

at Khartoum.

We will undoubtedly be having American Ambassadors in Tunis and in Morocco.

Going on down the coast of Africa, Nigeria, and the Gold Coast, two of the states south of the Sahara, probably will be coming into their

full independence. When that happens, there will be four independent states right across the center of Africa, beginning in Liberia, Nigeria, the Gold Coast, and skipping over to Ethiopia.

This is all taking place right under our nose. Unless we review these things once in a while, we don't realize how fast new areas are

coming into self-government.

Down in the central part of Africa, Northern Rhodesia, Southern Rhodesia, and Nyasaland are formed into a Central African Federation which will be a member of the British Commonwealth of nations.

#### ENCOURAGING STABILITY IN THE NEAR EAST

Foreign control and foreign domination, if you wish, had its disadvantages. Certainly the people of the area didn't like it, but it had certain advantages, from the point of view of stability, economic

progress, and development.

I don't think that we need to deny that, but the stabilizing influence of colonialism is disappearing. The United States has been in the forefront of helping these countries gain their independence. We have assumed a position in the world of being in favor of these countries achieving their aspirations to self-government.

Now, they have got it or are getting it so fast, as I say, it almost

takes your breath away.

The United States, it seems to me, has a continuing responsibility to help these countries make a go of it, and certainly to help them insure that the regimes that existed in the past are not replaced by

some other and more vicious system, or foreign control.

Furthermore, aside from the political aspect, Africa, south Asia and the Near East was probably the most outstandingly underdeveloped part of the whole globe. It's a healthier world for the United States to live in if we don't have great parts of the world in a seriously underdeveloped condition.

#### SOVIET MOVES IN THE NEAR EAST

One further point: I don't base my principal justification for this program, on the question of the actions of the Soviet Union. I don't hesitate to say that I think it would be in the national interest of the United States to have a program of this kind, if the Soviet Union didn't exist, but at the same time the activities and the interests of the Soviet Union in this part of the world certainly heightens and greatly increases the necessity for United States action.

Now, let us think about this part [indicating on map]:

Russia has always been interested in going down toward warm water ports. She has wanted the Straits of the Dardanelles, of course,

for a hundred years or more.

Her eyes have been a little bit more to the East, toward the Persian Gulf, and you may recall—I mentioned it to some member of the committee before—that in 1940 there was a very important meeting between Molotov and Von Ribbentrop at the time when the United States was still a nonbelligerent, in which Molotov put forth the definite proposal in black and white that the territorial aspirations of the Soviet Union lie south of the Soviet territory in the direction of the Persian Gulf and Indian Ocean.

One other consideration that adds to the Soviet interest in this area is that, in the circle right around the Persian Gulf lies three-fourths of the proved oil reserves of the entire world.

Now, if there were a map of the whole world on this same scale, you could take one hand like this and put it down on the map and cover three-fourths of the proved oil resources of the entire world.

That is just in the path of where the Soviet interests lie.

One further consideration is that Soviet Russia has always wanted her whole border to be surrounded by satellite territories. That has been accomplished in Eastern Europe—Poland, Czechoslovakia, Rumania, Bulgaria and the same is true in the Far East through China into the Straits of Alaska. So, from the Gulf of Finland to the Straits of Alaska the Soviet Union is surrounded by Communist territory except in this one little stretch, Turkey, Iran, and Afghanistan.

Now, all these things combine the interest of Russia in warm water ports, the interest of Soviet Russia in being surrounded by Communist territory, plus the fact that the economy and strategy of all Europe depends on the oil of this Persian Gulf. The concentration of interest by the Soviet Union in this particular part of the

world can hardly be exaggerated.

We have a fight on our hands if we are going to keep this area out

of Soviet domination.

One of the most important ways we can do it, of course, is to help in the economic and military development of the area.

Now, sir, that is my presentation.

#### IMPORTANCE OF NEAR EAST OIL TO EUROPE

Senator WILEY. Isn't it true that 95 percent of the oil from that area goes to Europe, so if Russia got it she could strangle Europe?

Mr. Allen. That is right, sir, exactly.

Actually, just to keep the record straight, I believe I have heard oil people state that about 85 percent of the oil of Europe comes from the Persian Gulf, and 15 percent from the Western Hemisphere, particularly Venezuela, but about 15 percent of the oil of the Persian Gulf does not go to Europe, and consequently the 3 million barrels of oil produced in the Persian Gulf, and the 3 million barrels a day consumed in Europe just about balance.

The CHAIRMAN. Does anyone have any questions now of the Secre-

tary?

Senator Wiley. I wanted to ask one other.

### SOVIET INTEREST IN AFRICAN RAW MATERIALS

I believe it is the consensus of the military, and State Department officials, like yourself, that not only would the Kremlin like to get this oil but it would also like to have a passageway to Africa in which we are mightily interested, because much of our vital raw materials come from there; is that correct?

Mr. Allen. That is correct, sir.

Senator WILEY. I have read that we only have nine out of the thirty-odd vital materials in adequate supply on our American Continent, nine of the thirty-odd.

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In other words, we cannot live unto ourselves, even from the standpoint of material things, because we don't have sufficient for our national defense. Out of Europe, out of Africa, which is a reservoir of the world for many vital materials, must come many things that we need in order to manufacture even automobiles or other things.

Am I right about that? Mr. Allen. Yes, sir.

Senator WILEY. Can you add some more to that, to show just what materials we are interested in, in Africa from which the Kremlin if it got that passageway through the Near East, could choke us off?

Mr. Allen. Well, one can start off right away by mentioning the fact that the Belgian Congo is one of the principal sources for uranium

in the world today.

Also, the Great Katanga Basin of the Belgian Congo, and Northern Rhodesia are rapidly becoming the new copper producers of the world.

woria.

From one of the countries in the area, India, in 1 year supplied the United States with 41 percent of its manganese, 68 percent of our kyanite, which I understand is an absolute essential for refractory crucibles, 57 percent of our mica, and 95 percent of our jute products. I might mention that, going back to Africa, a little country, Liberia,

I might mention that, going back to Africa, a little country, Liberia, with which the United States has had connections for such a long time, is a significant producer of natural rubber—the Firestone plantations have come into very large production, and a second American company, Goodrich, is developing plantations that will be coming in, in 4 or 5 years.

In addition to that, there has been discovered and developed an extremely rich mine of iron ore deposits, and ships are now loading in the harbor of Monrovia, which the United States built in the last war, coming to the United States with essential quantities of iron ore.

However, Africa is largely untapped in its resources up to now.

The future holds great possibilities.

#### WILL PROGRAM ACCOMPLISH OBJECTIVES?

Senator Fulbricht. Mr. Chairman, I think it is perfectly obvious to all of us how important this area is. But the question in my mind is: Are the measures you are proposing to take well designed to prevent this area falling under Communist influence, or losing its independence or slipping away from friendship with the West?

What bothers me is this. What you are proposing to do has very little relation to the accomplishment of the objective. I don't think anyone questions the importance of the area or anyone doubts the presence of oil there. It has been very well advertised. But do you think

a military program will accomplish our purposes?

Why won't they oust us just as they have ousted the British in Jor-

dan or Suez?

Mr. ALLEN. On that, I would say, Senator Fulbright, that we would be ousted if we relied on the type of military measures which involved political domination or implied or gave the impression to the countries that it involved political domination.

Senator Fulbright. You are just being asked to leave Iceland. That isn't political domination, but the Icelanders say they would like

for us to get out.

Mr. Allen. I am not an expert on the Icelandic situation. leted.] I think we have been relatively free of this kind of reaction, but we just have to accept the fact that this is a natural reaction. It is a bit of a warning to us, if you wish, that we can't give people the idea that we are trying to dominate them.

Senator Smith. Mr. Secretary, have you presented your whole statement! I have a number of questions but I don't want to inter-

rupt.

Mr. Allen. I am finished, sir.

Senator Smith. I have a series of questions on all of these countries

in there that I want to get in the record.

Mr. Allen. Yes, sir. I would suggest, sir, unless the committee feels otherwise, that you hear the opening statement of the ICA, and of the Department of Defense on this area; and then perhaps the questions can be addressed to us.

Senator Green. May I ask a question?

### DEFINITION OF AREA

Doesn't this terminology that is being used—you referred to Greece, Turkey, Iran, the Arab States—go right to the continent of Africa? When you say refer to the area I want to know what boundaries are used, because apparently it is quite different in the different departments of the Government.

It means one thing one time, and sometimes another.

Now, take something along the border, say Afghanistan: Is

Afghanistan in the Near East, as you use that term?
Mr. Allen. That is confusing, Senator; and I am glad you mentioned that point because the first part of my statement covers what we refer to as the Near East and Africa, and then over on page 10 it starts off:

I should like now to turn to South Asia.

The latter includes Afghanistan, Pakistan, India, Ceylon, and

Senator Green. Why do you say, in the beginning, that the Near East includes Greece, Turkey, Iran, the Arab States, and Israel, and the continent of Africa?

Mr. Allen (reading):

I would like to discuss with you some of the political and economic problems of the Near East and Africa and the relationship of them to the mutual security program. Specifically, this area includes Greece, Turkey, Iran, the Arab States, and Isreal, and the continent of Africa.

That is included in the term "The Near East and Africa."

Senator Green. How would you bound the Near East as the term is used in the State Department? Sometimes it seems to have one boundary and sometimes another. In order to know what the statements cover we would have to know what the words means as they are used. But if we don't know whether Kashmir is in the Middle East, or Burma is in the Near East, it's very difficult to follow.

Mr. Allen. Quite true, sir; and we are all guilty of loose expres-I had to go over the draft of a speech that is going to be delivered tonight, a few minutes before I came down here; and I found, in one paragraph, the area was referred to as "the Near East" and

in the next paragraph, it was referred to as "Middle East."
Senator Green. You must agree, that it is rather confusing to the public to have to stop and think just what they are talking about.

"NEAR EAST," "ARAB STATES," AND "SOUTH ASIA" DEFINED

Mr. Allen. When we refer to the Near East, in the strict sense of the division of responsibilities among the bureaus in the Department of State, the Near East means the Arab States and Israel.

Senator Green. What do you call the Arab States?

Mr. Allen. Well, that is a good point because some Arab States are not included even in that, but the independent Arab States of the Near East area are Syria, Lebanon, Iraq, Jordan, Saudi Arabia. Egypt, and Yemen.

Senator Green. Why wouldn't that include Pakistan?

Mr. Allen. It is not an Arab State, but it is a Moslem State.

Senator GREEN. India?

Mr. Allen. India is not included, that is south Asia—Pakistan, and India we define as south Asia.

Senator GREEN. Afghanistan?

Mr. Allen. Afghanistan is south Asia; that is an arbitrary divi-

Senator Green. Off and on, I think we ought to clarify the terms ourselves so others will know what we are talking about. It is very confusing to those of us who have to deal with these subjects, and more confusing to the general public.

#### EVOLUTION OF TERMINOLOGY

Mr. Allen. Well, I am going to blame part of that confusion, Senator, on our good British friends, in the first place, and, in the second place, ourselves for just following the British practices.

But in the 19th century, and in all the history books and in all the studies of the subject, the Near East meant the Ottoman Empire. Now, the Ottoman Empire included many states in Europe. It included Hungary, Rumania, Bulgaria, Albania, Greece, and they used to refer to it in history courses as "the Eastern question." It didn't mean the Far East; it meant the Near East or the Ottoman Empire.

Gradually, during the 19th century, when the states in Europe got their independence, they became assimilable to Europe. What was left in the Near East was Turkey. Then for the first 40 years of this century, when we referred to the Near East, we thought of Turkey and the Arab States, and the most important Arab capital as Cairo. But during the war the British established the Middle East command in Cairo under Sir Maitland Wilson and since that time we have fallen in with the confusion. When we say "Middle East," most often we think of Cairo. Some of the territory of the Middle East and Near East overlapped and what has happened is that the Middle East has disappeared since the Balkans have become independent.

Senator Green. I understand the origin of the confusion, but it seems to me it is about time to end it, and the State Department is in better position to end it than any other authority. They could at least let us have a document letting us know what the boundaries are I am not asking them to lay down a law to impose on other nations, but I think the State Department might have a definition and use it always to mean the same thing that the Middle East means so-and-so, the Near East means so-and-so, and the Far East means so-and-so. It would be helpful if it were done. I don't know that there is any way of compelling it, but I do know it would be helpful so that in any document you might send up here, when you say "Arab States," it always means the same thing.

Senator Smith. Mr. Chairman, might I suggest that we hear from ICA and the Defense Department in connection with what the Secretary just said, so that we can get a composite picture of what our

problem is?

The CHAIRMAN. We will. In what order would you suggest, Mr.

Secretary?

Mr. Allen. Mr. Dorsey of ICA first, please, sir.

# STATEMENT OF STEPHEN P. DORSEY, ACTING DIRECTOR, OFFICE OF NEAR EAST, SOUTH ASIA, AND AFRICA OPERATIONS, INTERNATIONAL COOPERATION ADMINISTRATION

Mr. Dorsey. Mr. Chairman, I have a prepared statement on the non-military portion of the mutual security program for the Near East, Africa, and south Asia, which we have submitted for your consideration, and for inclusion in the record.

If I may, I should like to point up very briefly some of the highlights in the statement, speaking from notes here, before I undertake

to answer any questions.

The CHARMAN. Yes. Thank you. Your general statement will be placed in the record.

(Statement of Stephen P. Dorsey is as follows:)

STATEMENT BY STEPHEN P. DORSEY, ACTING DIRECTOR, OFFICE OF NEAR EAST, SOUTH ASIA AND AFRICA OPERATIONS, INTERNATIONAL COOPERATION ADMINISTRATION

For the fiscal year 1957 we are requesting authorization of \$1,214,535,000 for the Near East, Africa, and south Asia. Estimated obligations for fiscal year 1956 are \$627,968,000. The increase is accounted for by an increase in military assistance over the fiscal year 1956 program and request for a Middle East and Africa fund in the amount of \$100 million for flexible use in providing economic assistance in the area.

The military assistance programs will be explained by the representatives of the Department of Defense. I shall describe the economic and technical assistance programs. We are requesting \$260 million for Defense support programs in Greece, Turkey, Iran, and Pakistan; \$139 million for development assistance in Israel, the Arab States, Ceylon, India, and Nepal; \$58.1 million for technical cooperation programs in the entire region; \$100 million for the Middle East and Africa fund I have mentioned; and authority to carry over \$45.3 million of unobligated Palestine refugee program funds.

# REGIONAL PROBLEMS

The problems in this area are many. Some of them are old problems created by invasion, civil strife, the clash of culture against culture, the disintegration of feudalism and, in some parts of Africa, the breakup of neolithic societies. Other newer problems stem from sudden economic growth. Every newspaper reader is aware of the famines, epidemics, earthquakes, and other natural disasters which seem to plague these peoples.

Governments and peoples of Asia and Africa, desiring both independence and rapid economic advancement, have placed a tremendous strain upon the managerial and technical capacities of their institutions. The transformation of the newly developing nations requires resources far in excess of those immediately available; private internal investment throughout these lands is insufficient

for perceptible economic growth. Yet only increased productivity—which requires improved tools and techniques—can produce the surplus capital needed to start an upward spiral in the standard of living. Land communications, where they exist at all, are inadequate. Health standards are appallingly low. Nomadism which prevails in many national economies further complicates the task of marshaling resources for advancement.

#### RECENT DEVELOPMENT

Despite the weakness and problems in the area, the situation has improved over the past years. Greece and Turkey have continued their heavy contributions to support of Allied defense strategy. The Turks, Iraqis, Pakistanis, and Iranians have adhered to the Baghdad Pact. Military cooperation and interdependence are but a part of this alliance which also provides a framework for regional economic development. Indian achievements under the country's first 5-year plan were striking. Libya, Liberia, and Ethiopia continue to make steady progress in forging more modern economies. Production is growing. Investment, in the private and public sectors, is increasing.

Let me turn now to a consideration of our programs in each of these regions.

#### NEAR EAST

This region includes Greece, Turkey, Iran, Israel, and the Arab States of Egypt, Lebanon, Jordan, and Iraq. Here we are confronted with both age-old religious, political, and economic tensions and more recent nationalistic aspirations in conflict.

#### ASSISTANCE TO EGYPT

To encourage the internal development of Egypt, the United States has offered to assist in the construction of the High Aswan Dam, a project which, upon completion, will provide for the irrigation of 1.3 million acres of desert and double cropping of 700,000 acres now under basin irrigation. These resource factors are critical to a growing population which is demanding immediate improvements in a steadily declining standard of living.

In the field of technical cooperation, agricultural projects continue to receive the greatest share of available aid for Egypt. Among the most interesting demonstrations is the desert range-development project centering around Rasel-Hehmah in the western desert. On a 25,000-acre pilot-project area, forage production has been increased tenfold through the introduction of fencing, livestock, and grazing controls, scientific seeding, and advanced water-spreading techniques. The success of this project suggests that economic exploitation of vast desert stretches of the country bordering the coast could be undertaken by the Egyptian Government in the not too distant future.

Other projects of a continuing nature include agricultural extension, live stock, and crop improvement, mineral resources development, education, and community development.

#### JORDAN AND LEBANON

Afforestation and watershed protection projects in Jordan are of critical importance to that nation. With a population swollen by 600,000 Palestine refugees and beset by political pressures from neighboring states, Jordan must make rapid economic progress to attain viability. Small irrigation projects and range improvement, and development of ground-water resources are being implemented and community-development loans and grants are being extended to alleviate the lot of the distressed rural population. Training and demonstration projects in agricultural extension, livestock, poultry and plant improvement, and community health and sanitation are operating efficiently.

Our efforts in Lebanon are directed toward assisting the depressed rural populations in improving agricultural production, health, and education.

Of particular importance to Lebanon is the Litani River project. Development of this river system, which was surveyed initially under an ICA contract, is being financed partly by the IBRD and partly by the Government of Lebanon. Through a contract with the American University of Beirut, we are further assisting the project by providing training for engineers to be employed by the project authority.

#### ISRAELI INDUSTRIALIZATION

Concurrent with vigorous efforts to increase agricultural production, Israel has striven to expand its industrial base. Limited agricultural potential requires this industrial growth if the nation is to achieve a viable, balanced economy. In the industrialization program the Israeli immigrants, fortunately, can play an important part, for many of them have industrial experience and possess skills comparable to those of Western European workmen. The United States development assistance program continues to encourage and assist industrial growth through the expansion of power and mining facilities and through loans of counterpart for industrial development, complimenting the considerable amount of private investment.

Solid progress has been made in raising the Israeli standard of living and in overall economic improvement. Exports rose from approximately \$44 million in 1952 to approximately \$90 million in 1955; direct United States private investment rose in book value from \$41 million to well over \$65 million during the same period; total GNP was up to approximately \$944 million in 1955 from a

1952 level of \$761 million.

#### IRAQI PROGRESS

The Government of Iraq has embarked on a long-term economic development program to which it devotes approximately half of the country's oil revenues. Iraqi funds alone finance the dams and irrigation facilities, land reclamation and settlement efforts, and highway development programs. Industrialization, too, is contemplated; already a survey of the country's industrial potential has been completed.

Our aid to Iraq is limited to technical cooperation. Iraq lacks skilled technicians and managerial personnel. Training projects for teachers and educational administrators are under way. We are assisting various governmental departments in public-administration techniques including personnel, budgeting, and accounting. In the community development field, we are operating 6 training centers for village workers and assisting in the establishment of project areas of approximately 100 villages each for intensive rural development. Technicians are working with the Iraq Development Board, the planning organization which oversees the balanced economic development program for the entire country.

#### THE GREEK PROGRAM

Greece has made substantial economic progress in the last few years, and, as a participant in NATO, has developed considerable military strength. Our program in Greece, in addition to our efforts to bolster her military capabilities, continues to foster increased agricultural and industrial progress. In the period 1951-55 total output rose by approximately 25 percent; yet much remains to be done before the Greek economy will satisfy the needs of the people.

Technical aid in agriculture encompasses extension and research work, assistance to the Greek agricultural bank and to agricultural cooperatives, and advice on the reorganization and modernization of the rural credit system of the country. We will seek to assist the acceleration of mine production, which still lags behind prewar levels, and the growth of other Greek industries. Strengthening the trade-union movement and thereby encouraging all elements of the population to cooperate in accelerating higher production standards is also an important part of the country program.

#### TURKEY'S PROGRESS

Three factors—budgetary deficits, inflation, and foreign exchange deficiencies—threaten Turkey's economic picture. For over 5 years, this country has made spectacular progress in its economic development program, and simultaneously, has achieved a military posture compatible with NATO requirements. However, this rapid development, in turn, has led to major economic problems. Encouraged to retrench by the United States, by other allies, and by international organizations, the new cabinet in January announced Turkish determination to stabilize the financial situation through a series of reform measures. If carried out, this reform program will lead to that stability which is essential to orderly economic growth.

The difficulties mentioned above, however, in no way lessen the significance of what has been accomplished. Since 1951, there has been an increase of 25 percent in per capita income and consumption. An average 6 percent in

crease in GNP each year since 1949 has taken place. Agricultural production has risen by one-third since 1949, industry and mining by 50 percent, construction by 50 percent and transportation and communications facilities have almost doubled.

United States aid has made possible, in large part, the improved agricultural techniques and the more efficient utilization of water resources in irrigation and in the development of hydroelectric power. Our assistance in the improvement and expansion of the national highway network, vital both to the civilian economy and to the military, should enter the phasing-out stages in the near future.

In education the University of Nebraska, in cooperation with Ankara University, is developing the new Ataturk University in Eastern Anatolia along the lines of an American land-grant college.

#### TRAN'S RECOVERY

Recovering now from the economic prostration which accompanied the nationalization of the oil industry and concurrent political frictions within the country, Iran today is making steady progress toward economic development and defensive military strength. United States aid at the time of the fall of the Mossadegh regime enabled the new government to maintain the independence of the country and to begin to provide a stable economic basis for future progress. Although much has been accomplished, continued support is needed if Iran is to continue on the path towards economic strength.

The technical cooperation program in the country has progressed steadily. Many of the projects in agriculture, health and sanitation, education, labor, and transportation are reaching the stage where they can be taken over by the appropriate Iranian ministries. Other projects will need our continued support. This is true especially in the fields of public administration and rural development.

The greater part of the aid needed in Iran presently is for budgetary support for the maintenance of the military establishment and for normal operations of the Government.

#### AFRICA

The great African Continent is awakening. Rapidly changing political factors and new strategic concepts have caused the rest of the world to focus its attention on this vital area. We may expect continuing desire for change among the varied populations and cultures sharing what is potentially one of the richest parts of the globe. The need for economic development is obvious. Both in the independent nations of Africa and in those states which are moving toward autonomy or independence we have undertaken programs geared to meeting the immediate and long-range needs of the people.

#### ETHIOPIAN ECONOMIC GROWTH

Until quite recently, Ethiopia was an isolated nation with a primitive economic organization and a tribal society. The present government has undertaken a comprehensive development program designed to take advantage of the country's resources.

Education has received the major emphasis. Our aid to Ethiopia has been concentrated, until this time, on the establishment of a modern school system extending from the grammar schools level to the undergraduate college level. The number of students in public schools has increased 70 percent in the last 3 years. Teacher training and technical and mechanical training have been emphasized. The agricultural school at Jimma is graduating its first full class after 4 years of operation. In September of this year the Imperial Agricultural and Mechanical Arts College will open, largely as a result of the efforts of a technical assistance team from Oklahoma A, and M.

### DEVELOPING LIBERIA

Ties between the United States and Liberia are well over a century old. Our interest in and sympathy for the only independent nation on the western shores of Africa is now manifested by technical assistance to Liberia's ambitious development program.

The Booker Washington Institute is worthy of particular note. Prairie View A. and M., Prairie View, Tex., under ICA contract, is providing technical support

for this institution. The work of the institute should help to meet the urgent needs of both private industry and the Government for skilled personnel.

#### LIBYA AND THE SAHARA

An outstanding phase of the program in Libya is the joint effort to stop and turn back the advancing Sahara Desert. Libya's future economic health depends in large part on the outcome of the struggle to safeguard the slender strip of agriculturally productive land on the shores of the Mediterranean and to recover for cultivation large areas of desert land once fertile.

Both development assistance and technical assistance support will have to be continued not only to increase the arable land area but also to train the Libyan farmer in modern agricultural techniques. Facilities for grain and meat storage and transport and port improvements are urgently needed. Assistance in the field of education is geared to the immediate need for modern techniques in agriculture, public health, community development and public administration and to the long-range requirement for a comprehensive education system. School enrollment has risen from 38,000 to 60,000 since 1952, and 2 new vocational agricultural schools opened recently.

#### DEPENDENT OVERSEAS TERRITORIES

Despite the fact that the primary responsibility for the economic welfare of the African DOT's rests with the metropoles, we are demonstrating with a technical cooperation program that we are interested in and concerned with their future development. This program is designed to meet the special problem of the territories by supplementing the efforts of the metropoles with specialized United States techniques.

#### SOUTH ASIA

The same problems which complicate the situation in the Near East are present in South Asia. Pakistan/Indian and Afghan/Pakistani disputes cause unrest and tension. Religious and cultural differences have long had a divisive effect on South Asian populations. Surging nationalism is a handicap to regional cooperation and peaceful arbitration of international disputes. We seek through our South Asian program to encourage the development of soundly balanced national economies in this region which includes India, Pakistan, Afghanistan, Ceylon, and Nepal.

#### INDIAN PROGRAM

India's huge population, most of whom are living in poverty, need help if they are to continue economic development within a democratic framework. The Indians themselves provided more than 90 percent of the financing of their first 5-year plan. Nearly all of the \$300 million provided by the United States from 1952 to 1956 has been used to support the plan and represents nearly 80 percent of the total of foreign assistance.

Seventy percent of India's population derive their livelihood from agriculture, and the country's most urgent need has been for more food. Therefore, the first 5-year plan emphasized increasing the food supply and returning the benefits to the farmers so that there could be improvement in rural standards of living. To this end American technicians have assisted in providing sources of pure drinking water for villages, improving sanitation, developing schools and initiating modern farming techniques. They have also assisted in a program which has reduced the incidence of malaria by 50 percent. A rise in annual per capita income of about 8 percent during the first plan is evidence of some improvement in living standards.

Agriculture will also be an important part of India's second 5-year plan, which began on April 1, 1956, but industry will be increasingly emphasized. One important goal of the plan is to absorb into the labor force 8 million people who are presently unemployed or underemployed. Another goal is to increase the national income by about 25 percent; this will still leave the annual per capita average at about \$60.

#### PAKISTAN'S DEVELOPMENT

Pakistan has taken a clear stand against Communist aggression by joining SEATO and the Baghdad Pact. Pakistan undertook these commitments in spite of serious economic problems caused by the separation of East and West Pakistan by 1,000 miles of Indian territory, a scarcity of developed natural resources, and its limited number of managerial, administrative and technically trained per-

sonnel. Pakistan's Government leaders are striving to maintain political stability and to develop adequate military strength for national defense, and to obtain for the population at large those higher living standards which are

essential for the achievement of the first two goals.

The technical cooperation program concentrates mainly on improvements in the way of life of the predominantly agricultural population. Basic improvement in health, education and agricultural practices are absolutely essential to the attainment of enhanced living standards and the capacity to accelerate economic development of the whole economy. The major technical cooperation project—village agricultural and industrial development—combines the efforts of public health, education, agricultural and cottage industry specialists to attack basic problems at the village level.

Pakistan's needs for imports are so large that technical cooperation alone is not sufficient to achieve an acceptable rate of development. The defense support program provides for the importation of capital items, capital project assistance, raw materials for established industries and certain essential consumer goods.

#### SPECIAL PROBLEMS IN AFGHANISTAN

The rapid increase of Soviet influence in Afghanistan has seriously affected the international position of this isolated country locked between the U. S. S. R. to the North and Pakistan to the South and East. Strained trade relations with Pakistan, arising from a dispute over a border area, have led Afghanistan to seek trade routes to the North. These efforts have been followed by increased trade and credit arrangements with the U. S. S. R. Our policy is to ease the tension between Afghanistan and Pakistan and to improve the relations of both nations with the rest of the free world. We have made available a total of about \$10 million to the Afghans since fiscal year 1952. The bulk of this aid has gone into technical cooperation projects in the fields of agriculture, industry, health, education, and community development.

#### THE NEW PROGRAM IN CEYLON

As one of Asia's newly free nations, Ceylon is in need of aid which will serve to diversify and strengthen its economy and raise its standard of living. Improved use of water resources in over 2 million acres in the north-central areas of the island, agricultural extension and research, and improvement of Colombo area railway services are some of the fields wherein United States aid could be effective. Our assistance will complement the programs already undertaken under the auspices of the Colombo plan and the U. N. and is geared to increasing food production, diversifying industrial production, and increasing the level of technical skills and managerial abilities.

#### ASSISTANCE TO NEPAL

In Nepal, virtually inaccessible and, because of its isolation, one of the least developed areas in the world, the Government has recently announced a 5-year plan for national economic development. The chief objectives of this plan are increased production through land reclamation, irrigation, afforestation, and improved technology. The plan also encompasses providing for improved transportation and communications with the outside world.

Since fiscal year 1952 the United States has been assisting Nepal with technical cooperation. A total of \$6 million has been made available over this period. The program in 1957 calls for technical assistance in the fields of village improvement, education, public health, irrigation, and mining. In addition development assistance funds will be made available for initial work in the development of the Rapti Valley to bring into production more than 100,000 acres of lands, now unused, to furnish the basis for settling 30,000 to 35,000 people.

### THE CHALLENGE OF SINO-SOVIET PENETRATION

Finally, I should like to turn to a brief consideration of a more recent development in South Asia, the Near East, and Africa. I refer, of course, to the increased efforts of the Sino-Soviet bloc to penetrate these newly developing states. Our efforts to assist these nations toward the realization of economic prosperity and independence, so that they might assume their rightful place among the free and equal nations of the world, have a quite different objective than that which lies behind Sino-Soviet offer of assistance. Domination is still the goal of the

Communist bloc and economic penetration the stepping stone toward political and economic influence. Some of the less fully developed nations may be tempted to gamble with their independence, so anxious and demanding are their populations for immediate rapid economic progress and so great are their development needs.

We must answer this challenge by constructive, affirmative programs carried out with perseverance and imagination. The destiny of great segments of the world is at stake. The challenge can be answered by our pursuing soundly developed plans of all forms of assistance, which in a friendly and genuinely helpful manner attempt to aid the nations of the area in meeting their numerous problems. We should not be pushed into support of unsound or unwise projects or projects beyond the capacity of our friends to carry out. We should make use of the experience gained in some years under the mutual security program in adapting our aid to the real needs of the nations we assist. However, we cannot fail to take account of changing conditions, and we must be prepared to adjust our programs to the constantly fluctuating situation of this region. This requires flexibility of approach.

Because of this need for flexibility we are requesting, in addition to the funds requested for bilateral programs, a Middle East and Africa fund. This has

various important aspects:

1. Conditions change rapidly in the area. Critical situations develop which should be dealt with. A fund for meeting these as they arise will be a useful

instrument of United States foreign policy.

2. Opportunities occur, sometimes rather rapidly, for giving assistance which will advance the cause of United States and free world security. A fund which can be used to take advantage of these opportunities (or to forestall Communist exploitation of critical situations) will be most helpful.

3. It is desirable to have some funds available for use in this area which are not even tentatively earmarked for any particular country. No country can then feel that its programs will suffer if such funds are devoted to special needs arising in other countries in the region. When funds must be diverted from other programs to meet critical problems, there is always risk of misunderstanding by the countries whose programs must be delayed.

#### IN SUMMARY

I have briefly covered the status of our nonmilitary programs in South Asia, the Near East, and Africa. I have pointed out some of the difficulties we are encountering and will continue to encounter as well as the successes that have attended our programs. The path that lies ahead cannot be called a smooth path. In assuming leadership in the free world we have assumed a mantle of heavy responsibility. We do not doubt for a moment that the demands upon our resources, human and material, will continue to be heavy. But we do not doubt, either, that we have chosen the right path to world peace and national security.

#### AMOUNTS REQUESTED IN THE AREA

Mr. Dorsey. For the Near East, Africa, and South Asia, we are requesting authorization for appropriations totaling \$1,214,535,000.

An increase of over \$500 million above the estimated obligations for this fiscal year, which is accounted for by an increase in the proposed military assistance program, and by a request for a Middle East and Africa special fund.

Our assistance to these states in dealing with the very complex obstacles to economic progress which exist there is made available, as you know, against a background of equally difficult political and military factors which Secretary Allen has described.

military factors which Secretary Allen has described.

But, in spite of these formidable obstacles and complexities, we believe that very real progress is being made.

We are equally sure that much remains to be done.

I would like to cite several programs very briefly as examples:

#### GROWTH OF ISRAEL

The Republic of Israel, with the United States mutual assistance totaling approximately \$250 million to date, along with other borrowings and gifts, has raised her production sharply, in fact, the gross national product rose from some \$779 million in 1951 to an estimated \$945 million in 1955.

Senator Smith. You say that is Israel?

Mr. Dorsey. That is in Israel. But her development is still in the early stages and continued external support is needed in view of

the balance of payment deficit which exists.

To insure growth of an integrated national economy in that country, we propose to emphasize industrial development while continuing at the same time our support of programs in agriculture, mining, and public administration.

#### DEVELOPMENT OF ARAB STATES

Now, to turn to the Arab States, in Egypt, Jordan, and Lebanon, development assistance and technical cooperation are very vital factors in their economic development. In each of these increased agricultural production is the paramount need.

We are prepared to offer assistance to the Republic of Egypt toward the construction of the high Aswan Dam. This installation could provide water for the irrigation of nearly 1½ million acres of land

that is unusable at this time.

In Jordan, our program includes irrigation projects, range improvement, livestock and plant improvement, and agricultural extension work.

In Lebanon, development of the Litani River will provide urgently required power for home and industrial use, as well as additional

water resources which are much needed in that country.

Iraq's great self-development program is outstanding. Her need for training technically competent personnel to man all the sectors of her growing economy is being met in large measure by our technical cooperation program there.

Similarly, in Ethiopia, Liberia, and Libya, efforts to bring about economic progress in those countries of Africa are being aided by the

mutual security program.

#### GREECE AND TURKEY

If I may turn to Greece, you will recall the political situation there immediately following World War II; the threat to Turkey during the same period; and the Communist penetration of Iran and the oil nationalization program during the last decade, of which Secretary Allen has spoken. I think that when we consider these situations, we may better appreciate the positions of comparative strength which those countries occupy today.

Each has advanced very considerably in defensive as well as in

economic capability.

Turkey in particular has made rapid progress. Her agricultural production has risen by one-third since 1949, and her industry, mining, and construction are up by 50 percent. Her transportation and communications facilities have almost doubled. The beneficial effects

of the considerable capital investment in Turkey's productive capacity without doubt will increasingly enhance its overall national

economy.

But this ambitious development of Turkey's has been made at some cost. Her fiscal equilibrium has been upset. Budgetary deficits, inflation and balance of payment deficiencies have followed very hard

on the heels of this great development program.

However, in January the new Cabinet announced its intention to retrench and to stabilize Turkey's financial situation through a series of reforms, and the proposed defense support and technical cooperation programs which I am speaking to here are geared to encourage this fiscal reform and to assist in the consolidating and integrating of projects that are on the way.

#### CONVERTIBILITY OF UNITED STATES PRIVATE INVESTMENTS IN TURKEY

Senator Knowland. What have we done to restore convertibility of currency for American private investment in Turkey, which is the only country which does not permit convertibility?

Mr. Dorsey. I can't speak of that myself, but I can supply a state-

ment for the record.

Senator Knowland. Can you get the facts on it?

Mr. Dorsey. Yes, I will be very glad to do it.

[The information, of a classified nature, is on file with the committee.]

Senator Knowland. I understand there are a good number of private investment firms that have been waiting for an opportunity to invest private capital in Turkey, but Turkey is the only country where we don't guarantee convertibility that we do guarantee, I think, in most of the other countries where we have programs.

Mr. Dorsey. Of course, one of her very greatest and most serious problems is this whole matter of convertibility arising from shortage of foreign exchange which we have been discussing and negotiating

about for some months.

Senator Knowland. I think also a great problem is how we can get off of this government-to-government approach and into private investments in plants from which they would otherwise get no productive use.

Mr. Dorsey. That is certainly right.

Mr. ALLEN. If I may inject, I would like to ask a little bit more about your point that Turkey is the only country in which we don't provide convertibility.

Senator Knowland. That is correct.

Mr. Allen. I was asking for further clarification on Senator Knowland's statement that Turkey is the only country in this area in which we don't provide convertibility.

Did you mean to make it even broader?

Senator Knowland. I mean to make it even broader. I have the precise figures in my office, and I will be glad to supply them.

Mr. ALLEN. I will be very much interested in that. It comes as something of a surprise to me that Turkey is the only country in which the United States Government or the Turkish——

Senator Knowland. No, the United States Government does not

provide investment guaranties in Turkey.

I am not saying that there may not have been a reason. We had a mission out there to suggest some reforms they apparently were holding up, and the reason given to the American officials and, I think, the Turkish Government, was that until they worked out some of these reforms, we were not going to apply the same convertibility guarantee that we apply to all the other countries.

But both the American investors and the Turkish Government have been getting a little restless under the situation, and my information, if it is accurate, and I believe it is, is that Turkey is the only country

that is presently being treated in that way.

Mr. Allen. I am not aware, Senator, that the United States Government provides general convertibility for American private investment.

Senator Knowland. I didn't realize you were going to be on the

stand today, so we will get at that later.

Mr. Dorsey. I might say that a subsequent witness will appear on

the investment program, before the committee.

Senator Sparkman. It is a matter of bilateral agreement. We don't just guarantee investments; we work out a plan with the government concerned, do we not?

Senator Knowland. But the fact remains, according to my information, that this is the only country among those countries receiving mutual aid with which we have not worked out an agreement.

#### INVESTMENT GUARANTY PROGRAM

Mr. Allen. It has come to me now what you are talking about. Some years ago Congress provided, in the mutual aid bill, for an investment guaranty program.

Senator Knowland. Right.

Mr. Allen. Now, that was a little slow in getting started, and I remember signing a bilateral agreement with Lebanon, and I believe, with perhaps Israel. Whether Turkey is a country with which we have a mutual aid agreement but have not signed one of these guaranties. I am not certain.

I am not sure what the exact status of the authorization is, but I believe we have more than \$300 million worth of additional applica-

tions against about \$85 million that remains available.

# LACK OF INVESTMENT GUARANTY PROGRAM IN TURKEY

Now, whether we have an agreement with Turkey is an interesting

point that I should be glad to look into.

Senator Knowland. There may be a valid reason, why we are not doing it, but Turkey has been a staunch ally, and she is up there under the gun. It is true they do have some problems in Turkey, but I think the more we can encourage private American investment, even with the inducement of convertibility, and get away from complete government-to-government operation, either through grants or loans, the better off we will be, and the better off the American taxpayer will be, then, in the matter.

Now, to be sure, convertibility guaranty may cost us something, as most of these programs do cost us something. But I don't like to see what at least is interpreted in some quarters as a discrimination against

Turkey. Turkey was one of the few members of the United Nations that supplied forces in Korea, and is carrying a very heavy defense burden along the frontier, because the Soviet Union is looking down her throat. I am prepared at an appropriate time, before the Appropriations Committee, to pursue this matter in more complete detail. I wanted to put you on notice that there would be some interested persons and some very clear inquiries made.

Mr. Allen. I am informed that Mr. Houston, of the ICA, will speak

on this particular point later in the hearing.

Mr. Dorsey. Shall I proceed?

The CHAIRMAN. Yes.

#### SPECIAL MIDDLE EAST FUND

Mr. Dorsey. Before turning to south Asia, I would like to mention that we are requesting a special fund for the Middle East and Africa designed to help ameliorate the danger of Sino-Soviet economic penetration, to take advantage of sudden opportunities to achieve our own program of objectives, and to lessen the gravity of further unforeseen international friction in that area.

This fund, we believe, will provide the flexibility needed to adapt our programs to rapidly changing events in that part of the world where there is such an economic, political, social and military state of flux.

# PROGRAMS IN NEPAL, CEYLON, PAKISTAN, AFGHANISTAN

Now, in south Asia, development assistance and technical cooperation programs in Nepal and Ceylon are important means of helping to vitalize the economies of these small independent states.

Our technical cooperation program in Afghanistan is continuing to contribute to the economic development of that country, and an additional goal is to encourage a Western orientation on the part of Af-

ghanistan.

The Republic of Pakistan has clearly allied itself with the free world

by adhering to the Baghdad Pact and SEATO.

She has assumed an important place among the democratic states

committed to collective security defense arrangements.

Territorial division, a great lack of skilled technicians and managerial personnel, together with severe natural disasters in the last several years, have all combined to inhibit her economic development and our technical cooperation in Pukistan is concentrated mainly on improving standards of agriculture, health and education in that country.

With defense support aid, a basic long-range economic development requirement, as well as her short-term economic needs—all are being expedited. Just to give one example, the multipurpose earth dam at Karnafuli will benefit the people of East Pakistan by providing power for homes and industries, as well as water for irrigation, and by improving flood control facilities, to a very great degree.

#### ALD TO INDIA

We are assisting India in her comprehensive second 5-year plan in order to demonstrate that essential economic progress can be achieved in a democratic framework without Communist regimentation and exploitation of many millions of individuals.

Senator Smith. Is that a grant or a loan to India?

Mr. Dorsey. It is a 75 percent loan, the largest component in any program in this area.

Senator Smith. How much in dollars?

Mr. Dorsey. The total for India is \$70 million. Mr. Allen. That is the total being requested.

Mr. Dorsey. Fifty this year plus ten million for technical—

Senator Sparkman. You bring out in your paper that for 1952 through 1956 the total was \$300 million.

Mr. Dorsey. That is correct.

Senator Knowland. I wonder if we could get for the committee a breakdown as between public works projects, such as dams, irrigation projects, and so on, and industrial projects, like steel plants, railroads, electric power generating establishments and other types of industrial plants.

Mr. Dorsey. We will do our best to supply that for the record,

Senator.

Senator Knowland. I think you might make a note of it. We will want to go into that rather fully for all of these countries, to see if there is not a line of demarcation between a field for private investment, and a field in which we may be justified in continuing on a government-to-government grant or loan basis.

But, I question very much how long we should continue to make

grants or loans for industrial development activities.

Mr. Dorsey. I can refer, for the Senator's information, to this book on south Asia which has, project by project, here, a breakdown of our aid.

This is the one on south Asia.

Senator Knowland. If we have it here, we will get to it at the proper time.

# COMMUNIST ECONOMIC PENETRATION

Mr. Dorsey. To conclude, I would say that in south Asia, as well as in the Near East and Africa, the Communist bloc economic penetration, of which I have spoken, represents a growing danger to the national independence and to free world objectives in the area. This added complication we think serves to make more urgent the need for United States support of the nations of the area and to continue to demonstrate to them that the United States desires their independence and well-being, not only as a matter of our security, but also their own security and independence, and we think that by sharing our materials and human resources in this way, we may better preserve the free world.

That is all that I have to submit at this time, sir.

Senator Green. Can I go back to the Near East for a question? Mr. Dorsey. Yes, sir.

#### JORDAN RIVER DISPUTE

Senator Green. I would like to ask about the present status of the controversy arising from Israel building a canal to draw off water from the River Jordan.

Mr. Allen. The immediate status of that, Senator, is that the Israeli Government takes the position that, as of March the first of

this year, Israel had a right to cut the canal at Banat ya'Coub, which means the Bridge of Jacob's Daughters. Israel bases that claim on the fact that some 3 years ago Israel started to dig a canal in the demilitarized zone west of the Jordan River, at that point. The Arab States immediately complained strongly, and took the matter to the Security Council. The Security Council called on Israel to cease its operations in the demilitarized zone temporarily, pending urgent consideration of the question. Israel did so. Israel maintains that during the succeeding 3 years the matter has been considered at great length.

A personal representative of the President of the United States, Mr. Eric Johnston, has been to the area four times and has undertaken a very prolonged and serious negotiation in an attempt to get an agreed solution between the Arab State and Israel for the waters of

the Jordan River.

Mr. Johnston got an agreement on the technical aspects of his plan for the division of those waters. The Israeli Government, on the political side indicates a willingness to come to agreement. The Arab States have not yet agreed.

Last September Mr. Johnston, on his last trip to the area, received rather encouraging views from some of the Arab States, but they thought perhaps a little more time was necessary to bring about an

agreement on the political side.

Israel stated at that time that she would defer for a brief time any further activity in the area pending an agreement. Israel now states that she has waited months from October 1 to April 1. She gave notice that if an agreement could not be reached by April she would feel herself free to resume work.

The Arab States have declared that Israel has no unilateral right to cut the water and the Government of Syria has given notice that if Israel does try to cut the water there, Syria will use all of her forces, including her military forces, to prevent it.

Egypt, I believe, publicly has declared that if fighting results from

this, Egypt will come to the assistance of Syria.

The Israeli Government has not actually in fact resumed work in the area.

[Deleted.]

# STATE DEPARTMENT POSITION IN JORDAN RIVER DISPUTE

Senator GREEN. What attitude does the State Department take?
Mr. Allen. We take the attitude that Israel should not unilaterally take action to divert the waters of a river that is common to Israel and the Arab States. On the other hand, we have been urging the Arab States most energetically to agree to the Johnston plan which we think is a good plan, or at least to come forward with some positive suggestion or some better or acceptable use of the water. We do not think that it is proper for the water of the Jordan River to continue to flow unused into the Dead Sea. [Deleted.]

Senator Green. Thank you.

The CHAIRMAN. Mr. McGuire, you are here on this subject, as well as on the next subject, I believe.

Mr. McGuire. That is correct, sir.

The CHAIRMAN. I think we will have to suspend here. The Republicans' conference is at 12:30. We will have to recess until 2:30.

Mr. Secretary, both of you gentlemen have spoken to us here about this particular Middle East, Africa, and South Asia problem. There might be additional questions on that area.

Mr. Allen. I am at the committee's disposal all afternoon, sir. Senator Smith. I have a number of questions I want to ask also.

The CHAIRMAN. We will be back at 2:30.

(Whereupon, at 12:30 o'clock, the committee stood in recess until 2:30 p. m., that same day.)

#### AFTERNOON SESSION

The Charman. Mr. McGuire, we will be very glad to have you proceed. You may put your statement in the record, or you can read it.

# STATEMENT OF E. PERKINS McGUIRE, DEPUTY ASSISTANT SECRE-TARY OF DEFENSE FOR MUTUAL DEFENSE ASSISTANCE, INTER-NATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE

Mr. McGuire. I would like to speak briefly in support of the program for the Middle East and south Asia, from the viewpoint of the Department of Defense.

#### STRATEGIC IMPORTANCE OF MIDDLE EAST

The Middle East is of special importance to the free world for strategic reasons. Through the area a tremendous volume of ocean shipping moves by way of the Mediterranean, the Suez Canal, and the From the area flows a vitally important part of the free world's supply of the oil required to furnish the power for its industry. So important is this oil that we may seriously question whether the economies of Western Europe could survive its loss.

It follows that the objective of United States policy in this critical area is to assist the countries of the Middle East to maintain their independence and friendly relations with the rest of the free world.

United States military interests in this area require maintaining the security of the NATO right flank in Greece and Turkey, the SEATO left flank, the direct sea route from the Mediterranean to

the East, and the Persian Gulf oil-producing areas.

The Baghdad Pact between Turkey, Iraq, Iran, Pakistan, and Great Britain, provides for the military, political, and economic cooperation of the member nations for mutual defense and sceurity. The pact is of particular military significance since it provides the link connecting NATO on the West and SEATO on the East. While the United States is not a member, we strongly support this collectivesecurity system, have sent observers to its council meetings and have joined the economic committee. The present military power of the pact is not yet great. However, a good foundation has been laid, and it is expected that the cooperative measures being taken by the Baghdad Pact nations will serve to bring them into an effective political, economic, and military relationship with each other and with the free world.

The northern tier of Baghdad Pact countries provides the only coordinated force in the Middle East potentially capable of deterring a strong effort to penetrate the region if supported by the United States and free world military and economic assistance.

### FACTORS AFFECTING MILITARY ASPECTS OF PROGRAM

There are several factors which affect the military aspects of the

mutual-security program in this area:

1. Most of the countries in the Middle East are not capable of financing out of their own resources those military forces required to deter aggression and to maintain internal security. Some of these nations need not only military assistance in the form of weapons and military supplies, but also defense support in the form of projects designed to give direct budgetary assistance to their military efforts.

2. The Soviets, taking advantage of the various historical antagonisms and current controversies which beset the region, and encouraged by the weakness inherent in many states of the area, have recently stepped up their efforts to penetrate this region by all means

short of military aggression.

3. The Arab-Israeli dispute, which greatly complicates the problems in this area, has been seriously aggravated by Soviet bloc arms shipments and provides tempting opportunities for Soviet exploita-

tion of various antagonisms.

All of these factors indicate that this is an area in which, in its own interest and in the interests of the free world security, the United States must continue to provide carefully considered economic and military assistance.

#### MILITARY ASSISTANCE TO GREECE AND TURKEY

Over the past few years, the military equipment and training received by Greece and Turkey have resulted in greatly strengthened forces in this strategic location on the NATO right flank. However, military assistance is still required to enable them to maintain and modernize these forces to the standards agreed upon in NATO. Turkey's ground forces, particularly, represent a considerable and valuable force for the defense of the free world. The North Koreans and Chinese Communists can testify to the effectiveness of the Turkish troops in Korea. Greek forces, also tested in battle, are indispensable to southern Europe. Both countries require defense support.

# MILITARY ASSISTANCE TO IRAQ, IRAN, AND PAKISTAN

The provision of military aid to Iraq, Iran, and Pakistan has served to strengthen the internal security and defensive potential of these countries. This military assistance has added confidence and stability to these countries. The formation of the Baghdad Pact last year is a substantial achievement in advancing the military effectiveness of the defense efforts of these nations. Together with Great Britain, the United States must provide substantial further military aid if the objectives of this collective security arrangement are to be achieved. Our military aid takes into consideration the military mission assigned to each country's forces in the future joint defense plans as well as the country's potential capabilities.

The stake of the free world in the Middle East is high. Important political and economic considerations aside, strategically we cannot afford to abandon this area to the new Soviet colonialism operating through external pressures or indigenous pawns.

The CHAIRMAN. Any questions?

Senator Smith. I would like to ask whether you discussed the Baghdad Pact at all.

Mr. McGuire. I mentioned it in my presentation only, sir. Senator Mansfield. Mr. Chairman, I would like to ask a few questions.

#### ARAB GROUPINGS

Senator Green. Is there not in progress another pact with more

southern nations to offset the Baghdad Pact?

Mr. Allen. Yes, Senator; there is a pact which has been sponsored by Egypt, membership of which now consists of Egypt, Syria, Saudi Arabia, and Yemen. It is not stated in so many words that that is designed to offset the Baghdad Pact. In essence, it is a different alinement in the area.

Senator Green. Is it an effective counterbalance?

Mr. Allen. Well, both pacts are designed against aggression, and for common defense, and neither group expects that the other group will attack it, so neither pact is designed as a defense against a threat-

ened attack by the other group.

To that extent, they are not at cross-purposes, the chief difference being that the Baghdad Pact has as a member a nation which is not one of the countries of the area, Great Britain; and the United States has expressed publicly its support for it, whereas the Egyptian-Syrian-Saudi Arabian, and now Yemen, Pact, are pacts, membership to which is limited to the countries of the area itself, and those who sponsor the Egyptian-Syrian-Saudi Pact claim that that pact is therefore more local and conforms more closely to the needs of Arab nationalism than the Baghdad Pact.

#### ARAB NATIONALISM AND UNITY

Senator Green. That is the long-range objective. Is there any progress towards that end?

Mr. Allen. Towards the end of Arab nationalism?

Senator Green. Yes.

Mr. Allen. Arab unity? Well, they got an additional adherent just about 2 weeks ago when the Yemen adhered to it. I don't admit, Senator, that the Baghdad Pact is designed against Arab unity. I think Arab unity is possible, just as possible with the Baghdad Pact or without it.

I don't believe that, certainly, as far as the United States is concerned, and I think as far as all the members of the Baghdad Pact are

concerned, that they are opposed to Arab unity.

As a matter of fact, the only Arab state that belongs to the Baghdad Pact, which is Iraq, makes out a pretty good case for itself when it says to all the other Arab states: "You all talk about Arab unity, but we are ready and willing to do something about it at any time, at the drop of a hat."

Senator Green. Suppose they say: "How about joining us"? Mr. Allen. Iraq has said for 3 or 4 years—10 years now—"We will join in a union of all Arab states, we will join in a union of half the Arab states, we will join in a union of 3 Arab states, 2 Arab states. We will join, and we are ready to join right now."

Senator SMITH. Are those alternatives?

Mr. Allen. Well, it is such as if you were trying to unify the United States during the time of the Articles of Confederation, and if one State, Virginia, or New York, or any other States, said: "We believe in union so much that we would prefer to have all the States in the Union, but if some of the States don't want to join, we will join with those that are ready to join, and even if only one other wants to join, we will join with it." That has been the position that Iraq has taken all along.

Senator Green. Is there any tendency of Iraq to leave the Baghdad

Pact and join the other?

Mr. ALLEN. I see no tendency in that direction; no, sir. As a matter of fact, I don't believe that Iraq would regard those two pacts as mutually exclusive. Iraq might very well be a member of both pacts.

[Deleted.]

Senator Green. Then, according to present data, there is no probability of there being other combinations in addition to these two

pacts, is there?

Mr. Allen. Not that I know, sir. I can't think of any other. People speculate once in a while maybe the best thing to do is start all over again, or have one new pact which sort of embraces both

regions.

The Prime Minister of Egypt takes the attitude that small, newly independent and underdeveloped countries should not join in a military alliance with a great power, because that means that the small country somehow puts itself to that extent under the subjugation of the great power, and that is his main objection to the Baghdad Pact.

# UNITED STATES REFUSAL TO JOIN BAGHDAD PACT

Senator Green. What was the objection to the United States join-

ing it?

Mr. Allen. Well, as you know, considerable pressure has been put on the United States to join the Baghdad Pact, but we have not felt that it would contribute to our interests and the general interest of the area to join, for various reasons.

[Deleted.]

There is not the historic necessity, if you wish, for the United States actually to be a member, such as there was in the case of Great Britain.

#### EFFECT OF PARTIAL MEMBERSHIP

Senator Green. Doesn't our being represented at the conferences of the members of the Baghdad Pact and taking part in one of their committees make that very same impression that you speak of?

Mr. Allen. It does to that extent, but not to the same extent that

it would be if we were a full member.

Senator Green. As a matter of policy, what is the idea of alienating other Arab nations to that extent?

Mr. Allen. Well, there were other considerations that were offsetting. We regret that our membership in the Economic Committee of the Baghdad Pact causes unhappiness in Egypt, for example, or Saudi Arabia. We don't like that part of it.

On the other hand, the nations of the area who felt that they were under threat of possible Soviet aggression, wanted to join together in the collective-security system. The United States supports the idea

of collective security.

They made the rather bold decision, particularly in the case of Iran, to join this pact. We felt that we were justified and it was desirable for us to show, to demonstrate, our support for the principle of collective security, even though there were particular situations in this case that made us not want to become full members. At the same time, we gave it our moral and material support.

Senator Green. Did that leave us free to join the other pact, too? Mr. Allen. Well, it would leave us free to join the other pact, but we would not be invited to join the other pact, sir, because the very point of the other pact is it is a pact without membership by great

powers outside of the area.

Senator Smith. Then Great Britain won't be asked to, either.

Mr. Allen. Great Britain almost certainly, we can say for the record, will not be asked to join the other pact, unless there is a general rethinking of the point of view of the states of the area.

[Deleted.]

#### ARAB ATTITUDES TOWARD ISRAEL

Senator Green. Are the attitudes of the two pacts toward Israel different?

Mr. ALLEN. Not insofar as the Arab States are concerned; that is, the only Arab State that belongs to the Baghdad Pact is Iraq, and Iraq feels, I believe, emotionally just as strongly on the Israeli question as

any other Arab State.

Iraq has another special position, however, in that among the Arab States we are now considering, Iraq is the only one which is not an immediate neighbor of Israel. It does not touch on Israel. It does not have a common border, so consequently it is a little bit more removed from the immediate Arab-Israeli quarrel, particularly as regards the disputes, border disputes.

The CHAIRMAN. Any other questions? Senator WILEY. Yes, Mr. Chairman.

#### ECONOMIC AID FOR ENTIRE AREA

I felt that Senator Fulbright this morning asked some very pertinent questions, so I am going to ask something along the same line.

First, how much money, economic and military, do we plan to put

into the Near East, can you tell me?

Mr. Dorsey. I can give you the figures for the economic program, Senator.

For fiscal year 1956, in both the Near East, Africa, and the south

Asian program, there is a total of 463 millions.

And it is our expectation that all of those programmed funds will be obligated by June 30, except perhaps an amount of about \$45 million which was intended for the Palestine refugee rehabilitation program.

Senator Writer. How much more is unspent?

Mr. Dorsey. As of June 30, 1956, we estimate about \$475 million will be in the pipeline, but all of our funds we expect to be obligated by the end of this fiscal year, except those for Palestine refugee rehabilitation.

Senator Wiley. When do you expect that you will have to pay for

that?

Mr. Dorsey. I would say within this coming fiscal year.

Senator WILEY. By July 1, 1957?

Mr. Dorsey. Yes. Our pipeline runs about 1 year.

Senator Wiley. What are you requesting for your program for

fiscal year 1957?

Mr. Dorsey. Our request for 1957 on the economic side is \$557 million plus a requested reappropriation of \$45 million for Palestine refugees.

# MILITARY ASSISTANCE FOR NEAR EAST

Senator Wiley. What about the military?

Mr. McGuire. On the military, there is \$612 million.

Deleted.

Senator Wiley. Let's go back and find out how much military assistance funds you expect to spend for fiscal year 1956.

Mr. McGuire. If you are addressing yourself to this particular area, I don't have it broken down that way. I can have it broken down for you on that area basis.

Senator Wiley. Now I am talking about the military. How much at the present is unexpended, contracted for but unexpended in military assistance for this area?

Mr. McGurre. I don't have that, but you have that figure as of

November 30. For this area there was \$598,149,000.

Senator Wiley. All right, but you can't tell me what will be unexpended by July 1.

Mr. McGure. I cannot at the moment. We can develop that figure

for you.

(The information requested is as follows:)

#### UNDELIVERED BALANCES

If deliveries proceed as now forecasted, it is expected that \$441 million of the approved fiscal year 1950-56 program for the Near East and Africa will remain to be delivered after June 30, 1956. During fiscal year 1957, it is expected that \$215 million of the approved fiscal year 1950-56 program will be delivered to countries of the Near East and Africa region. There would, therefore, remain \$226 million to be delivered after June 30, 1957.

Senator WILEY. And how much are you asking for fiscal year 1957? Mr. McGuire. For 1957 for that area we are asking for \$472 million. Senator WILEY. It seems to me it would be very important to find out what is contracted for 1957 and how much you would have unexpended by July 1957.

#### MILITARY ASSISTANCE FOR BAGHDAD PACT AREA

Now, just one other thing. You made the statement, Mr. McGuire, that was very important militarily that we sustain, I take it, the Baghdad Pact, and we do that by military and economic assistance. How much of this really goes into the Baghdad area?

Mr. McGuire. [Deleted.]

Senator WILEY. What kind of weapons will we send?

Mr. McGuire. It is all military type weapons, of course. Basically, spare parts, aircraft. I can detail these.

Senator WILEY. How much is spent in America?

Mr. McGurre. I would say the greatest part of it is spent in America.

Senator Wiley. Where is the rest of it spent?

Mr. McGure. The rest of it would come from offshore procurement contracts.

Senator Wiley. Do you have that outlined?

Mr. McGuire. From a point of view of our forward programs, sir, we can't do that at this point because the offshore procurement programs to a great part are developed after you screen your own total requirements against your own supplies here and other contracts that we have.

Senator WILEY. Is it your judgment and the judgment of the Defense Department that this contribution will cement our allies against the influence of the Kremlin?

Mr. McGuire. I think so very definitely.

Senator Wiley. Have you personally had any knowledge on that question?

Mr. McGuire. I have been in Turkey. I have not been in the other

countries of this area.

My knowledge comes more from discussing the matter with people like Admiral Radford and other people who I consider, in the military aspects of it, have probably a greater experience in that particular field.

## CONSEQUENCES OF NOT GIVING AID

Senator Wiley. Supposing we did not give the economic and mil-

itary aid, what in your judgment would be the consequences?

Mr. McGure. Well, I think one answer to that would be helpful to you, that Admiral Radford has stated from his point of view, that is the purely military point of view, he feels that the Baghdad Pact is most important, and I think if we were to withdraw our support from that area, my presumption would be that these countries would be alone out there occupying a very strategic position, which certainly is important to us to have maintained. They do represent a group surrounding the perimeter there of the Soviet area.

Senator Wiley. Do you mean that if we don't give this aid the consequences will be such that the Kremlin could penetrate and take over

these countries?

Mr. McGuire. I think there is a great possibility of that, yes.

Senator Wiley. That would mean, as has been stated by Secretary Allen, that they could take possession of the oil and have a passage-way through to Africa. Is that what you are driving at?

Mr. McGuire. Yes, sir.

[Deleted.]

Senator Willey. Is there any economic return to our own country for this vast sum of money?

Mr. McGure. I think Mr. Dorsey and Mr. Allen would be better qualified to answer that than I.

Mr. Dorsey. I would like to say, sir, that a very high portion of the funds is exported in the form of commodities. These are also semifinished products which are produced here by American firms and are then sent out to the area.

#### EXPORT OF AGRICULTURAL COMMODITIES TO AREA

Senator Wiley. Any agricultural products?

Mr. Dorsey. A great many agricultural products. Senator Wiley. What?

Mr. Dorsey. There is, of course, a large amount of wheat. There are sugar, fats, and oils.

Senator Fulbright. Do we export sugar to that area?

Mr. Dorsey. Some sugar was sent to Greece, sir.

Senator Fulbright. From this country?

Mr. Dorsey. From this country.

Senator WILEY. Is that all broken down so that it can be shown that there is an impact upon our surpluses?

Mr. Dorsey. We can give you a breakdown commodity by commodity. [The information referred to is as follows:]

MSP and Public Law 480 programs (title I and title II), fiscal years 1955 and 1956 for Near East, South Asia, and Africa

#### [Millions of dollars]

	Fiscal year 1955		Fiscal year 1956	
Commodities	MSP	Public law 480	MSP	Public law 480
Food and agricultural imports: Bread grains Coarse grains. Cotton Dairy products Fats and oils Wool. Fibers. Fertilizer Sugar Meat. Miscellaneous.	57. 6 2. 2 1. 8 .3 3. 1 1. 3 .5 10. 8 11. 6 .6		37. 0 1. 7 7. 0 3. 0 9. 0 1. 0 . 7 8. 0 12. 7	59. 7 3. 8 1. 8 12. 4 18. 6
Total, food and agricultural imports	91. 7	89. 5	81. 8	152. (
Industrial imports: Petroleum products Raw materials and semifinished products Rubber and rubber products machinery and vehicles Railroad and rolling stock Miscellaneous and unclassified	7. 9 73. 2 6. 2 85. 9 18. 5 39. 0		5. 6 74. 1 10. 0 63. 0	
Total industrial imports	230. 7		194. 1	
Total commoditiesOcean freight	322, 4 5. 4	89. 5 10. 7	275. 9 8. 9	152. <del>(</del> 8. (
Total commodity import program	327. 8	100. 2	284. 8	160. (

## Public Law 480, title III commodities (no dollar breakdown by commodities available)

#### [Millions of dollars]

	Fiscal year 1955		Fiscal year 1956
Egypt. Butter Checse Milk	19 9	Egypt Butter Cheese Milk Beans	32 3
Greece. Butter Butter oil Cheese Milk Cotton seed oil	8.8	Greece Butter Cheese Vilk Wheat Rice Corn Beans	12 9
India Butter Butter oil Cheese Milk Cotton seed oil	18 3	India Butter Butter off Cheese Milk Cotton seed oil Wheat Rice Corn Beans	14. 8
Pakistan. Butter Cheese Milk Cotton seed oil Rice Corn Beans	1 2	Pakistan. Butter Chesse Milk Rice Corn Beans	7. 2

Senator Willey. That answers my question. Do we send powdered milk out there?

Mr. Allen. A great deal of it, yes, sir, goes to two programs that I know of particularly. Mr. Dulles was very much impressed with the sight of the milk feeding program in Ceylon when we visited there. The CARE program of surplus commodities providing for lunch programs in Egypt alone was 30 to 40 million dollars last year, consisting of surplus products, largely eggs and milk, I believe.

Mr. Dorsey. Under Public Law 480, on a worldwide basis, I have here a figure of 12.8 million in surplus dairy products under programs signed up through April 15 of this year, 116 million of cotton, 50 million of rice, 133 million of wheat, 27 million of feed grains, 126 million of fats and oils, which I believe I mentioned earlier.

I think, sir, that that gives some idea.

## IMPACT OF AID PROGRAM ON RECIPIENTS

Senator Wiley. Have you any definite information as to the impact of what we are doing upon the common people of those countries?

In other words, are we building any spirit of friendship or cooperation? What is the result in terms of what you might call the international good will?

Mr. Allen. Let me say, Senator, that I think that one of the points that we must look at most honestly in regard to the entire program of foreign aid is the almost paradoxical fact that in many countries we hear complaints against the United States, countries in which we have had very large programs.

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That is a fact that many, almost all Americans who travel abroad,

comment on. Certainly I have seen it, and I am sure you have.

I have noticed in my own office, particularly during the last year, that it seems to me we are going through a period of what I would call diplomacy by complaints.

[Deleted.]

They want to complain that the United States has not supported them strongly as we have supported the next fellow. If it is a question of Cyprus, the British, the Turks and the Greeks, all three complain that we haven't taken their side as much as they would like.

[Deleted.]

So it is something that I think we have just got to recognize as a fact of life today, and not get too excited about it. It is a tribute, if

you wish, to the importance of the United States.

Now, when a vote is taken in the United Nations on the Palestine case or on the Cyprus case or on the Kashmir case, or any of these disputes, we can expect a reaction, because the way the United States votes on these matters is of tremendous importance.

That is why we must expect, I think, the constant attitude of pressure on the United States. It does not necessarily mean that they are bitter against the United States, but they just keep up the pressure.

I think it is something we have got to be adult about. We have got to recognize that that is the way things are going these days, not to get too upset because people complain and quarrel with us.

Senator Humphrey. Every elected official should understand that.

Senator WILEY. I have no more questions.

The CHAIRMAN. Senator Fulbright?

## SUGAR EXPORTS TO IRAN

Senator Fulbright. I wanted to know about that sugar.

What were the circumstances of the sugar exports, Mr. Dorsey !

Why did we export 100,000 tons of sugar?

Mr. Dorsey. Sugar went out to Greece and Pakistan and I think Iran in fiscal year 1956. It was surplus which was disposed of under our program and sold for local currency.

Senator Fulbright. You said these were surpluses.

Do you mean to say that the United States produces more sugar than it consumes?

Mr. Dorsey. I am informed that this is a surplus which the Depart-

ment of Agriculture wished to dispose of; yes, sir.

Senator Fulbright. You know very well that we do not produce more sugar than we consume. We import much more sugar from Cuba than we produce. This was just a scheme, wasn't it?

Mr. Dorsey. I think it is Puerto Rican sugar, sir.

Senator Fulbright. Continental and Puerto Rican sugar produc-

tion is much less than we consume.

We were importing sugar at the time at a very high price from Cuba and you sold this to Iran. We are supporting Cuban sugar at around 98 percent of parity.

Wasn't this just a way to curry favor with a particular group?

Mr. Dorsey. A statement on this subject was placed in the record by Mr. Hollister on May 7.

Senator Fulbright. I just wanted to bring out that you really do not know at all why they did it, do you?

Mr. Dorsey. I would simply say that it was a commodity which

was needed and that-

Senator Fulbright. But it is a commodity that we are importer Year after year for 30 years we import sugar from Cuba. We do not produce an excess or surplus of sugar, do we?

Mr. Dorsey. Right.

Senator Fulbright. It makes no sense to apply the same idea that

you apply to cotton and wheat to sugar, does it?

Mr. Dorsey. Not across the board I would say, but I would if I may again like to obtain the particular circumstances under which this sugar was sent abroad, for the record.

## EFFECTIVENESS OF MILITARY PROGRAMS IN MIDDLE EAST

Senator Fulbright. I do not wish to labor it, Mr. Chairman. I wanted to ask Mr. McGuire a question. He says that this program has built a strong group of nations along the northern tier that he relies upon to keep Russia out of the Middle East.

Do you think that Iran is in a position to resist Russia now if

Russia chose to move?

And do you think this program is intended to do that? (Discussion off the record.)

## DIFFERENCE BETWEEN UNITED STATES MILITARY AID AND BRITISH POSITION IN JORDAN

Senator Fulbright. Do we have any military missions in Turkey! Mr. McGuire. Yes, we do.

Senator Fulbright. Why do you think we are doing it in a different way, if we have a military mission?

What role does the mission play?

Mr. McGuire. The mission primarily serves two purposes: The one in Turkey, sir, is a dual mission. It is a training mission as well as a military advisory group.

In its capacity as a military advisory group, it tends to work out with the country, Turkey, its deficiencies and its requirements.

Deleted.

In the training area phase of it, they work closely with the country in training them in the use of that equipment and seeing that it is put to the best use.

Senator Fulbright. What essentially is the difference between what our missions do and what the British missions did? How do you

distinguish?

Mr. Allen. May I say, Senator, that the British troops and British officers in Jordan were in actual field command of the troops. In no area of the world where we have a military mission that I know of are our officers in actual command of troops.

Senator Fulbright. Do you think that is a significant difference? Mr. Allen. I think it is in the minds of the people of the area.

[Deleted.]

#### FUNCTION OF MILITARY MISSIONS

Senator Fulbright. How many people do we have in Iraq, for example? Do we have any military mission in Iraq?

Mr. McGuire. Yes, we do.

Senator Fulbright. How many do we have there?

Mr. McGuire. We have 12, and 5 locals; so-called locals.

Senator Fulbright. They do not command anything?

Mr. McGuire. No, sir.

Senator Fulbright. They do not advise or tell the Iraqis what to do?

Mr. McGuire. Just advise and counsel with them as to their own forces where the counsel is sought.

Mr. Allen. They do this in addition, Senator.

When the Iraqis put in a request for military assistance, our people in our military missions have to certify first that this is needed in the Iraq Army, secondly, that they are capable of utilizing this type of equipment, and, third, that they are capable of taking care of it.

[Deleted.]

Senator Fulbright. That is a very obvious case.

#### DETERRENT EFFECT OF MILITARY ASSISTANCE

I am unable to appreciate the significance of this military program

from our point of view.

Assuming we do not wish to take part in a local fight between the Israeli and the Arabs, you do not seriously feel that the Iraqis or the Iranians or the Pakistani can resist Russia, if Russia chose to march?

The deterrent to Russia marching, I have always understood, is the nuclear power that SAC has, not those local militia. But I may be wrong.

Do you feel yourself that that local militia in Iraq is a significant

deterrent to Russia?

Mr. Allen. I think that it makes a difference.

[Deleted.]

## IS MILITARY ASSISTANCE GEARED TO MODERN WARFARE?

Senator Fulbright. I had understood that the nature of warfare changed a little since that period and that there were different considerations today.

Do you think we still are confronted with the same kind of military

problem now that we had 15 years ago?

Mr. Allen. These are the types of questions that I have got views

on, but I had better turn to the Defense Department.

Mr. McGuire. I think obviously the matter has somewhat changed, Senator. I think, however, that more people agree that you have to build your foundation on conventional-type weapons as of the moment.

We have not arrived at a point where anybody knows whether the war, when it comes, will be an all-out atomic effort. There are some people certainly, who feel that the atomic situation is one that would cause people to stop short of going to an all-out atomic war. It is in itself a great deterrent to prevent war.

Senator Fulbright. I am not arguing with you. I want to get your

views as to the military significance of aid.

Mr. McGuire. I obviously am not an expert on tactics of war. Admiral Radford is coming before this committee and could discuss this whole phase of it with you.

#### ASSURANCE OF OVERSEAS BASES

Senator Fulbright. Another aspect of that question is what will prevent countries suddenly from deciding to throw us out when they think they have got all the aid they are going to get, for any reason, like the Icelanders whom we discussed this morning. There is no assurance we would not be asked to leave whatever we put in at any time, is there?

Mr. McGuire. I think the answer to that is how we conduct ourselves. I don't know; there are very few things in this world that are a natural sure bet where you can determine in advance exactly

what is going to happen.

I suppose there is always that calculated risk, but I would think if we demonstrated by our efforts the sincerity of our friendship, that we would be welcome in that matter.

#### RELATIVE MERITS OF MILITARY AND ECONOMIC AID

Senator Fulbright. I think the real question at issue is whether or not military aid in this area is a better way to assist them than economic aid.

I am told that, for example, in Turkey today there is a very serious inflation and that their own economy is badly dislocated. We may well be accused of having contributed to the disruption of their economy to such a point that we will be very unpopular people there if we are not already.

They have already applied for a \$300 million loan, I believe, and

were given \$25 million, weren't they?

Mr. McGuire. I would like for Mr. Allen to speak to that, but, before he does, I would like to make this observation. [Deleted.] The Turks as allies happen to be ones who really want to be prepared and fight if they are forced to fight.

Now, as to the economic factor, I think Mr. Allen or Mr. Dorsey

would be prepared to answer that.

Senator Fulbright. The point I wanted to try to develop was the relative importance in this program of military versus economic aid.

In round numbers it is about 85 percent military, and 15 percent economic.

In a country like Iraq or Iran, which is poverty stricken, it seems to me that giving them guns will tend to create more animosity than it will friendship. Leaving out sentiment, you will create conditions there that are unhealthy whereas a similar amount of money to improve economic conditions, even if we leave, would result in an improved country.

The trouble with military aid is it does not improve a country so

far as I can see.

Generally speaking it imposes a burden on countries which they cannot support. Immediately after we leave, the whole effort collapses, the machinery rusts and so on. It is all a complete waste. Do you consider that is within your province?

Mr. McGuire. I can only give you a personal expression on part of it. I think I would put myself as being in the position of one of those nations. I certainly would feel a lot more comfortable out there if I had some military strength, however small it might be, as long as it were better than I would be without this program.

Admittedly the things you are talking about, economic factors and the development of a country to make them self-sufficient would be

something I would want too.

But in the meantime I certainly would be very grateful for any military strength that I had that made me more sure that I was going to exist, while waiting for the economic benefits to bear fruit.

Senator Fulbright. I don't feel really that whether countries like Iraq have a few more or less guns has any significant bearing to their

continued existence.

## INTERNAL SECURITY FACTORS

[Deleted.]

Senator HUMPHREY. Will the Senator yield at that point?

I would like to ask a specific question on that. I have heard this argument many times.

Would you give me a country in which that happened?

Mr. McGuire. Are you referring to where the country lost out over there?

Senator Humphrey. Yes, because of inadequate security forces to

repel a local uprising.

Mr. McGuire. Let me see if I can think of one quickly. I ought to know it. I think Vietnam is a good example. I was going to say

North Korea, that area in there.

Senator HUMPHREY. That was not a local uprising in Korea. That was an aggression. That is a different proposition. I think this is a statement which is frequently made and I want to say that I think there is very little documentation for it.

I have searched hard and fast to find some. There have been some political coups such as in Czechoslovakia but these had nothing to do with arms at all. These were brought about by infiltration of the

cabinet.

Mr. McGurre. I was in Czechoslovakia about the time that happened.

Senator Humphrey. There was no armed conflict, was there?

Mr. McGuire. No.

Senator Fulbright. There is one last thing on which I would like your observation.

#### WHY REQUEST FOR INCREASED MILITARY ASSISTANCE?

What has happened in this area that makes you feel it is necessary

to increase the military strength?

Mr. McGuire. Well, I think two things, sir. One is that we have a maintenance factor to consider. The other one is the general area, I think we could describe it as an important or critical area where at the moment there is a lot of tension.

I think those are two important points.

Senator Fulbright. I don't understand your feelings of more tension. We were told only a month ago by the Secretary of State there is less tension and a better situation now than a year ago. The general feeling I have from most of the reports from the political side of the Geneva Conference is that the one thing they agreed on was not to go to all-out war and that now the situation has shifted to a competitive coexistence, whatever that may mean.

Mr. McGuire. There is a substantial amount in this program for maintenance and building up the forces, completing what we set out

to do.

[Deleted.] Senator Fulbright. Mr. Allen, do you think there is a much more serious threat of war in this situation to justify the increase in armaments?

## REQUESTS FOR MILITARY ASSISTANCE

Mr. Allen. Senator, so far as the threat of aggression by the Soviet Union is concerned, I think that there is less likelihood of overt, open

Soviet aggression in the area.

So far as the point that you made, which is a very interesting one, that if we shove more military equipment on these little countries than they can support we are going to become very unpopular, I am quite frank to say that I do not endorse a heavy buildup in countries whose economy cannot stand it.

I much prefer to see them have more shoes and more clothes for the ordinary people and houses than having heavy military equip-

ment, if that were possible.

[Deleted.]

Now the extent to which Egypt recently went to get arms from Czechoslovakia, mortgaging her cotton crop and her resources shows far from cramming guns down these people's throats; there is no doubt about it in my experience in working with them that they are begging for more arms.

Now that does not say that we ought to give them to them, but I have been surprised and I will even say shocked at the extent to which they are anxious to get military supplies. We don't press them.

Senator Fulbright. Do you think part of that may be due merely to the desire of the ruling clique to hold themselves in power and to prevent any political reform?

[Deleted.]

The CHAIRMAN. Senator Smith, did you say you have some questions?

## REASONS FOR ASSISTING AREA

Senator Smith. I have a few more. I am a little bit confused, Mr. Secretary, as to just what our motivation for military aid is in this area.

Are we primarily helping the Baghdad Pact to be strong against a move by Russia or by any other nation in the area?

How do we feel about the competition between certain of these Arab leaders to be the head of the Arab world?

What about the Arab-Israel dispute?

I would like to get the whole picture of why we are putting money in the military and economic aid.

Mr. Allen. The policy of the United States, and I say this as a career man, having watched this through different administrations, as far as I can see it has been constantly to try to strengthen this area against the possibility of Soviet aggression.

Senator Smith. That is what I assumed was our main policy.

Mr. Allen. Well, I can say we want internal stability. sufficient military strength in an area to insure stability. want situations where the Soviets or anyone else can capitalize on turmoil or chaos.

## DEVELOPMENT OF BAGHDAD PACT

[Deleted.]

Senator Smith. Didn't we inspire the idea of the Baghdad Pact after we got SEATO and NATO? Didn't we think the Baghdad Pact was a complementary collective security group in the middle?

Mr. Allen. That is right. (Discussion off the record.)

## BRITISH REACTION TO UNITED STATES ABSENCE FROM BAGHDAD PACT

Senator Smith. Weren't the British very much concerned that we

did not go into the Baghdad Pact with them?

Mr. Allen. Yes, they are unhappy and wish we would go in and the countries who belong to the Baghdad Pact would like for us to go in.

[Deleted.]

#### MILITARY AID FOR BAGHDAD PACT COUNTRIES

Senator Smith. What in the fiscal year 1957 mutual security program reflects our support of the Baghdad Pact?

Mr. Allen. We have a somewhat increased military support for the members of the Baghdad Pact, Turkey, Iraq, Iran and Pakistan. Senator Smith. This just appears as military support for those

countries. It has no relationship to the pact as such?

Mr. Allen. Well, no, not to the pact as such, although we demonstrated by the sending of Ambassador Loy Henderson to the last Baghdad Pact meeting-

Senator Smith. He talked economics more than military, didn't he? Mr. ALLEN. Yes. He spoke of support of the economic activities

We joined the economic committee. of the pact.

Deleted.

We do support the collective security arrangement of the pact, because, as I pointed out this morning, of the intense Soviet interest in this part area.

The stronger the area is, the stronger deterrent it is to any military

adventures.

Moscow for the sake of argument we may say has taken a new line for the present moment, but how long is it going to continue that line and how long are the people who are determining that line in Moscow going to stay in office?

[Deleted.]

It seems to me that some strengthening of this area militarily, as long as it is not too great a burden for the countries to bear economically, is in the United States national interest.

#### STAYING OUT OF INTER-ARAB COMPETITION

Senator Smith. Doesn't that raise the danger though that the Soviets through Czechoslovakian munitions would strengthen the Egypt-Saudi Arabia combination? Aren't we really getting into a military race for a balance of power in that area, you might say?

I want to know whether we are not stimulating Russia to support

the other group?

Mr. Allen. I don't believe, Senator, that our support for the Baghdad Pact of itself leads other countries to seek arms. [Deleted.]

Senator Smith. Iraq is in competition with the other Arab group represented by Nasser of Egypt who is trying to be the key figure in the Arab world?

Mr. Allen. Yes, sir.

Senator Smith. And Iraq would like to be a key figure in the Arab world too. I am wondering whether we are moving into an inter-Arab row there.

[Deleted.]

Mr. Allen. We have made it very clear that the only military supplies we will give are those which are designed for collective security and defense in the area, and we have, by all of our individual actions in answering particular specific requests, shown that what we mean by that is collective security against a possible attack by the Soviet Union.

[Deleted.]

We avoid entering into intra-Arab politics or the Arab-Israel

Senator Smith. Of course if they have the armies they could use them anywhere they wanted to in case of an emergency, I suppose.

## SPECIAL MIDDLE EAST FUND

That raises a question in my mind about this so-called special \$100 million fund for the Middle East and Africa. I want to ask you about it.

The executive branch presentation book that I have been studying lists several types of projects which might be financed with this proposed hundred-million-dollar fund. It emphasizes these items are not intended as a firm program; furthermore all of these illustrated items are classified as secret.

My question is, Is it possible for this committee to have a more

precise statement of what we do with that fund?

Why is it so secret? What could be said publicly to justify the fund in the Senate when we are asked, "What about this blank check of \$100 million for that area"?

Mr. Allen. Senator, there are 2 or 3 chief reasons for this request

for \$100 million for a Middle East fund.

Basically it is rather similar to the same request that was made last year for a Far Eastern fund. The chief thing that attracts me about it is that it does not allocate all our funds to individual countries.

The countries tend to regard every penny of amounts justified for a country as having been voted for them, and if you make adjustments because of changed circumstances from the amount voted by the Congress to this country or that country, they are terribly offended.

A certain amount of flexibility will prevent our being constantly under the gun by all the countries saying "That is our money; Congress has already voted it for us."

## REGIONAL PROJECTS

Furthermore there are many types of cases, projects that are multilateral in their nature, and should be developed as a multilateral type

of program.

Take the Tigris River. The Tigris River, the Tigris-Euphrates Basin, Iraq is now a country of 5 million people. It was considered in the time of Nebuchadnezzar to be a country of 15 or 20 million people because they kept up the dams, they controlled the water properly.

Iraq has now got oil revenues and it wants to do that again, recover

its ancient position and glories.

But the Tigris-Euphrates Basin is not only in Iraq.

It involves Turkey, Syria, Iraq, and Iran. To get four nations to work together in the proper utilization of a water system is a very difficult one at best.

If we can contribute to technical assistance and a certain amount of economic support to multilateral programs of that sort, it will tend very definitely to build up the economy of the aera.

l Deleted. l

Senator Mansfield. Will the Senator yield right there? Senator Smith. Yes.

#### TIGRIS-EUPHRATES BASIN

Senator Mansfield. Getting back to the Tigris-Euphrates project, it is my understanding that the Government of Iraq is building that entirely with revenues from the oil wells and that there is no technical assistance connected with it. They have already built at least one project, maybe two, and are in the process of building others. Within 10 years they expect to have a pretty respectable area of the old Garden of Eden territory restored to them; is that correct?

Mr. ALLEN. That is right, sir. The Iraqis are doing a very fine job but that is only Iraq. I mentioned the fact that there are four countries involved in the basin, and the other countries' interest is

more than collateral.

I just use that as one illustration of the type of projects. There might be various borderline cases in which no one country had enough interest to go into this project for its own country, but if you could get the two countries together, each one putting in a little and maybe we could contribute some ourselves, we could get an important project started.

Senator Mansfield. But there is no American money?

Mr. Allen. There is no development assistance money in the Iraq program at the present moment. We are giving some advice through technical assistance.

Mr. Dorsey. We are training the people that they need to run a lot of these installations.

Senator Mansfield. But they are paid by the Iraqis?

Mr. Dorsey. No; we have a very small technical assistance program where we are helping them train their people. They are paying their people after they get trained.

Senator Smith. Would Afghanistan be eligible for any part of that?

Mr. Allen. Afghanistan would be eligible under the Middle East

and Africa fund.

Senator Smith. The line of demarcation between these two discretionary funds then would be the Afghanistan; is that right?

Mr. Allen. Yes, sir, with Afghanistan eligible under the Asian

fund as well.

Senator SMITH. Mr. Chairman, I have some more questions, but I think others ought to have a chance to ask questions so I will refrain at the moment.

The CHAIRMAN. Any questions?

Senator Sparkman. Mr. Chairman, I would like to ask just a few brief questions.

## TECHNICAL ASSISTANCE FOR NEAR EAST

I want to ask something about point 4. That has hardly been mentioned in the course of these hearings and it seems to me that this is one of the areas of the world in which there is a real challenge for that type of program.

What has happened to it? And what is proposed in this program?
Mr. Allen. I think, Senator, you have in mind when you use the

term "point 4," the technical cooperation program.

Senator Sparkman. Well, it was known for a long, long time as point 4 and my experience out in the field is that they still call it point 4. Technical assistance, yes, sharing of skills and techniques.

Mr. Allen. As a matter of fact, the term "point 4" is so broadly and loosely used in many of these areas that it is used to indicate the whole program of economic and technical assistance. But so far as the more restricted program of technical assistance is concerned, that is very definitely a part of this program as it always has been in the past.

Mr. Dorsey. We are asking for the same amount for fiscal 1957 for technical assistance for this area as has been programed in fiscal year

1956.

Senator Sparkman. Is the program moving along very well in this

general area?

Mr. Dorsey. It is, sir. It is moving along. We have of course some problems. As you know, one of those is the ability, the absorptive capacity if you want to call it that, of these countries to train people as quickly as we would like it.

We have another problem in getting first rate technicians to go

abroad in the numbers that we would like.

But we are strengthening the program right along in the form of personnel, trained personnel, and we think that it is performing a very worthwhile service and it is getting to be a better service as we go along.

Senator Sparkman. It seems to me that it could serve very well in connection with these economic development programs or any of these special programs in preparing surveys and finding out what the re-

sources are that need to be developed.

Mr. Dorsey. That is one of the very important ways that we are using it, Senator.

## INFLATION AND ECONOMIC SITUATION IN TURKEY

Senator Sparkman. A question was asked a while ago with reference to inflation and the economic condition generally in Turkey.

Are we doing our utmost? I agree with what the Secretary said with reference to Turkey being a fine ally and one that we can always

count on.

Are we doing our best to help them relieve that situation?

Mr. Dorsey. We certainly are doing everything we can to help Turkey continue as the most effective possible ally that she can be.

As you know, Senator, she has been carrying out a very considerable

general economic development program, a laudable one.

The only difficulty has been that in doing so the Turks have incurred

a heavy debt in carrying out their economic development.

They have tried to expand their money supply through central bank credits. They have gone along, but the situation has finally reached a balance-of-payments situation where something has to be done.

They have had a serious gap in their available foreign exchange, and we have tried to work closely with them to show them the importance from a long run point of view in not overexpanding this

dev<del>el</del>opment effort.

As I mentioned in my statement this morning, at the first of this year the Turkish Government stated that it was going to increase the amount of available money and credit internally in the country, that it was going to try and put some restraint on the state enterprises and that it was going to work toward a balanced budget.

We hope that they will continue these efforts.

[Deleted.]

#### RATE OF TURKISH DEVELOPMENT

Mr. Allen. Yes; we are very cognizant of the financial difficulties,

economic difficulties of Turkey.

It is a problem because the Turks have got great enthusiasm and it is a valuable thing to support and encourage. They want to make over their country tomorrow. They are still going on the same momentum, same type of revolutionary spirit that Ataturk put in the country in taking it out of its medieval mentality and economy to a modern world.

They are building fast in textiles, cement, steel, and other enter-

prises.

The trouble is that the Turks alone cannot finance all these projects and as far as the United States is concerned, there is just so much money to go around the world and there are a lot of countries that are enthusiastic in this way. The Turks came in very enthusiastically, desiring a \$300 million additional loan over and above the approximately \$100 million of economic aid that we have been putting in Turkey every year.

#### ASSISTANCE TO TURKEY COMPARED

Senator Knowland. Mr. Secretary, may I interrupt you at that point. I think we are all mindful of the fact that the Turks have carried, as perhaps the South Koreans and others have carried, a heavier military burden than normal for a country of that size or economic capacity. We have given considerable aid to her.

But I have had prepared a chart showing the nonmilitary credits and grants to the various countries since the close of World War II to and through December 31, 1954.

I do not have the 1955 figures on it. This shows the British Commonwealth. The red indicates credits and the gray indicates grants.

Here is the British Commonwealth [indicating].

Here is France; here is Germany, a former enemy state; here is Italy, Japan, Greece, Nationalist China, Netherlands, Korea, Austria, American Republics, Philippines, Belgium, Yugoslavia, Israel, Norway, India, Turkey, like thus.

Senator Sparkman. What does the gray show, Senator Knowland? Senator Knowland. The gray shows grants and the red credits. Turkey is pretty far down on the list for a stout ally with 35 divisions, which may have prevented American divisions from being used.

Frankly, I am not impressed too much by the amount of our economic assistance to a country which has perhaps overstrained itself to do its share and perhaps prevented us from having to maintain 35 divisions of our own over there or some considerable part of them.

Mr. Allen. Let me suggest, Senator, that another graph could be

gotten up that would show a different picture.

For example, last year Greece was way up here.

Turkey, also, insofar as the actual funds allocated, under the

economic program.

As a matter of fact we provided over \$100 million to Turkey in development funds of which only \$75 million was made available for defense support.

Senator Knowland. What do you consider defense support? Is it

military or really economic or part of each?

I do not raise the question in the way of criticism necessarily because

I assume we have had reasons for doing it.

But I do state that the Congress, which has the responsibility under the Constitution of being the guardian of the pursestrings and being trustee for the public's money, has a responsibility to review constantly these problems in foreign aid, as I think it does in our national defense. It seems to me that in view of the fact that Turkey has been such a stout ally and does have economic problems, they can well look at those figures and feel that perhaps they have not been as generously treated in the economic field as others.

Mr. Allen. Could I suggest, Senator, that you turn to the page on Turkey and you will see in the first chart there the way economic and

military assistance have increased.

Senator Knowland. I made it clear this does not include military aid. We have been I think quite generous to Turkey, generous I think in our own behalf as well as in theirs.

But I did not say that this chart showed the whole picture.

## ADEQUACY OF ASSISTANCE TO TURKEY

I merely wanted to point out that in the economic field alone,

Turkey is not among the most favored nations.

We have of course, to take into account the amount of aid we have given them from a military point of view. I raised the question this morning about American firms and banks that were prepared to make American private investments in the country but they found that they

were running into a convertibility block. I started to inquire as to what we had done in the way of economic aid that might justify the putting of a block on convertibility for private investment. And I was frankly a little surprised, if not shocked, at how far down the list Turkey was in the economic field.

It does no good to build a military organization if the country has an economic collapse and perhaps unrest and political disturbances.

I merely hope that that picture will be carefully reviewed to see whether or not there has been a proper and proportionate share for Turkev.

The CHAIRMAN. Mr. Secretary, hasn't the President very recently

transferred two funds to Turkey?

Mr. Allen. Yes, sir; \$30 million.

The CHAIRMAN. \$20 million and \$13 million.

Mr. Allen. That is \$33 million; yes, sir.

[Deleted.]

Senator Humphrey. What kind of economic aid, Mr. Secretary? Mr. ALLEN. Dollars.

#### PRIVATE INVESTMENTS IN TURKEY

Senator Humphrey. I want to say the point Senator Knowland is raising is a point that some time ago I had brought to my attention through a letter about private investment business in Turkey. our large companies in my part of the country has some substantial investments there and has run into this convertibility problem. example, Minneapolis Moline is in that area, and there is another one called NAPCO, I think, dealing with auto parts or small machinery.

They have spent a great deal of money in Turkey but it is difficult

to do business because of this inflation problem and the lack of

convertibility.

I have felt for some time that the fact that Turkey was such a staunch military ally was worth a tremendous amount to us. Rather than thinking strictly in economic terms about Turkey, we ought to be thinking in political terms—the actual political significance of the stability of Turkey and her contribution to the defense.

Mr. Allen. In order to make the record clear, I will point out that during the recess we obtained a copy of a printed document, committee print of the Foreign Affairs Committee published on May 1 of this year, which gives a review of the investment and information

media guaranties.

It shows, Senator, that we do have a guaranty agreement with

Turkey.

Senator Knowland. Yes; but we have suspended the guaranties. I know that for a fact, unless it has been misrepresented to me, and I do not believe it has been. I made some personal inquiries into the situation, and found that American firms that wanted to take advantage of this convertibility guaranty during the last 3 or 4 months at least, maybe longer, have been told that the provision was suspended even though they had arranged the credits at the banks. I think I can get the names of the banks and the firms that were interested and were told that Turkey was one country where the convertibility guaranty now was not being put into use.

Senator Humphrey. That is correct.

Senator Knowland. We might as well face up to the fact. I think

that can be amply demonstrated if necessary.

Senator Sparkman. It seems to me, Mr. Chairman, it might be well if that matter could be checked into in order that the record might be clear.

(The information, of a classified nature, is on file with the

committee.)

I wanted to ask just another question or two with reference to Turkey.

## TURKISH APPLICATION FOR LOANS

Is Turkey trying to get a loan in this country at the present time! Mr. Allen. The Turkish Government has for a matter of a year indicated that it needs \$300 million as a lump-sum fund to get it over what it considers to be a temporary financial stringency. It sent a delegation here a year ago to present the Turkish Government's views on that matter.

We considered it, had many meetings with them, and came to the conclusion that we could not do that; in the first place we just did

not have any \$300 million.

We would have had to come to Congress and ask for a special bill of \$300 million specifically for Turkey.

Senator Mansfield. Did they want a loan?

Mr. Allen. They said they would be glad to have it on a loan basis.

Senator Mansfield. Did they state the terms?

Mr. Allen. No; we did not get to talk about terms other than that they said they would of course be glad to have it on as generous terms as possible. That was as far as we got.

[Deleted.]

We did find that we could increase the regular economic aid last year from 70 million to 100 million, so we gave them 30 extra million dollars last June.

We have done the same thing this year.

We have taken \$30 million from various other sources and increased the economic aid to Turkey again to \$100 million this year including direct forces support.

Senator Smith. Are those grants or loans?
Mr. Allen. Those are part grant and part loan.

Deleted.

And the answer to your question specifically, sir, is yes, the Turks would like a \$300 million loan.

Senator Sparkman. If they will just wait 3 years they will get it

without having to pay interest on it; won't they?

Mr. Allen. We have been giving them about \$100 million a year economic aid and we feel that that proportionately with what we have to do for other countries is about all we can afford.

## ENCOURAGING FISCAL STABILITY IN TURKEY

Senator Sparkman. You may have answered this next question which is this: Do we have experts working with the Turkish institutions on their fiscal matters?

Mr. Allen. Yes, sir.

Senator Sparkman. It has been my understanding that Turkey has been facing a most difficult situation economically and that there has been real danger of inflation and may be even yet. That is true, is it not?

Mr. Allen. That is correct, sir.

Senator Sparkman. Are we doing our best to help them out of their difficult situation?

Mr. Allen. We are doing our very level best to try to help them work out of it.

[Deleted.]

Also the International Monetary Fund has been helping in sending missions and discussing the situation with them, making suggestions.

Senator Sparkman. Did the Randall Commission make a study and

a report on this?

Mr. Allen. Yes; Mr. Randall went to Turkey and made a special study and special report on the Turkish economic situation.

Senator Sparkman. Are we following his recommendations in gen-

eral?

Mr. Allen. Yes, we are in general.

Mr. Dorsey. I think it might be in order, Mr. Secretary, to make one point, and that is that we do feel working as closely as we have been with the Turkish Government, that one thing is essential; if United States aid is to be meaningful to them, they have got to take some steps that are rather hard to take, but that involve fiscal reforms.

I think as I said a minute ago, they are coming to that.

The Government made a statement to that effect in January.

## RELATIONSHIP OF FISCAL STABILITY TO AID

Senator Knowland. Well, I hope the patient does not die while we

are expecting him to do these things.

We have had a few problems of our own for a good many years in trying to bring our budget into balance, reduce our national debt and do other things which are sound fiscal policies. But sometimes it is easier said than done.

We have lost China and other areas of the world for various reasons. I do not want to wake up some morning and find that the Turks, who have been among our stoutest allies, have succumbed. I think that is unlikely, but, nevertheless the Russians with their new techniques and record of animosities, could turn up someday with a \$300 million loan at 2 percent and tend to neutralize and pull out of the free world orbit a country which has no peer as far as having been willing to stand up and be counted when the chips were down.

I do not want to sit at some committee session a year or 2 from now on a post mortem on Turkey as we have had to have post mortems

on other countries.

Senator Humphrey. This morning Mr. Allen testified to the fact the Soviet Union offered Afghanistan during the Bulganin-Khrushchev visit a \$100 million line of credit for 30 years at 2 percent interest.

They have also made some overtures to Turkey.

Mr. Allen. I believe they have, sir.

Senator HUMPHREY. This is what Senator Knowland is driving at. I do not want to overestimate the importance of fiscal responsibility and you are to be commended for seeing that there is some fiscal responsibility.

There is more to this than economics, however. This has to do with overall policy. We have made loans to other countries that I am sure no good businessman would have made from a strictly economic point of view and we have made grants. In terms of overall policy it seems to me that it makes some sense.

Mr. Allen. I certainly, speaking for myself, welcome the support and enthusiasm I find in the committee for the economic assistance

program in Turkey.

Senator Sparkman. Mr. Secretary, I have one more question and

then I will quit.

I want to ask: Why should the Randall report on Turkey be confidential so far as this committee is concerned when we are studying these confidential matters relating to the economic program of this

Mr. Allen. I will inquire into it.

Senator Sparkman. It seems to me that it might be quite relevant to our consideration of this matter. As I say, I am not insisting. That is all, Mr. Chairman. Thank you.

The CHAIRMAN. Any further questions?

Mr. Humphrey. I have a couple of questions, Mr. Chairman. The Chairman. Yes, sir; go ahead.

## SIZE OF AID PROGRAM FOR IRAQ

Mr. Humphrey. Mr. Secretary, I was interested in the comments relating to Turkey and Iraq and the Baghdad Pact. It seemed to me that there is a considerable amount of difference between Turkey and Iraq as partners in defense, Turkey being a member of NATO as well as the Baghdad Pact.

I do not think it is quite right to group Iraq and Iran in the same military grouping as Turkey, and give them military assistance to

the same degree as Turkey.

「Deleted. |

Mr. Allen. [Deleted.] Turkey herself is urging us to do more for Iraq and Iran and Pakistan to strengthen the pact and to encourage the enthusiasm of the members of the pact for the organization.

Deleted.

Senator Humphrey. How much economic aid are you putting into Iraq?

Mr. Allen. Mr. Dorsey? Mr. Dorsey. \$2.3 million.

Senator Humphrey In what form?

Mr. Dorsey. That is in the form of point 4 technical cooperationthe training of the technicians that I mentioned earlier today, who will participate in the operation of the great irrigation systems and so on that they are building with their own funds.

Senator Humphrey. How much defense support?

Mr. Dorsey. No defense support.

Senator HUMPHREY. In other words, Iraq is receiving military

assistance and some point 4 technical assistance funds?

Mr. Dorsey. That is right. No defense support because their economy is sufficiently strong to carry a military establishment of the size they have.

## MILITARY ASSISTANCE TO PAKISTAN

Senator HUMPHREY. Now let me ask you about Pakistan.

The report came to me the other day—I have asked the Library of Congress to get me the papers—to the effect that one of our military officers on a recent visit in India, I trust inadvertently, made a statement to the effect that a substantial amount of arms is going to Pakistan—enough to equip 2, 3, 4, or 5 mechanized divisions, and also some modern jet aircraft.

Is that true?

Mr. Allen. I have heard that same report. We are filling the deficiencies of certain [deleted] existing divisions. They will have certain motorized equipment.

[Deleted.]

The Indians have gotten very exaggerated reports about tremendous buildup in Pakistan.

[Deleted.]

Senator Humphrey. Will you mechanize them?

Mr. McGuire. No. They are on a rather austere basis.

[Deleted.]

It is a different thing to have a foreign mechanized division than one in the United States. And when we talk about tables of organization and equipment, we want to be sure we adjust those tables for the purposes for which those forces will probably be used.

Do I make myself clear? Mr. Humphrey. Yes, you do.

## INDIA-PAKISTAN SITUATION

Don't misunderstand me. I recognize the judgment that has gone into these decisions and there is undoubtedly a good basis for it.

The point emphasized here by Secretary Allen is very important however. You are caught up here in a very tense political situation and international rivalry between the Pakistani and the Indians.

The reports I had, and I think Secretary Allen has verified it, is that the Indian press is just filled with comment, exaggerated maybe,

about renewed American military assistance to Pakistan.

Mr. McGure. To my knowledge, and I have in the short time I have been here given considerable attention to this program, there are no additional commitments beyond those that were in existence for the last 2 years.

I think in Pakistan as in other areas my job is to see that the goods are delivered, and the sooner we get them delivered subject to the capabilities of the forces to assimiliate it, the better this equipment will be in creating the good will that it was originally designed for.

Senator HUMPHREY. Let me ask this question.

## INCREASE IN MILITARY ASSISTANCE TO AREA

In fiscal 1956 we had \$105,076,000 in military assistance in the Near East and Africa. That is this regional area.

This year according to the chart that I have here, it will be \$471,-

918,000. Who gets the lions' share of this increase?

[Deleted.]

...

Senator Humphrey. How will the rate of deliveries or actual expenditures for fiscal 1957 relate to expenditures and deliveries in 1956?

Mr. McGuire. If I understand your question correctly, what you are asking me is specifically what will we expend or deliver in each of those countries in 1957?

Senator Humphrey. When you look at this total figure and the breakdown, it appears that this year Turkey must be going to get a

lot more military assistance, not in theory but in deliveries.

Mr. McGure. This is the program. The proof of it will be what you deliver. Under the plan on which we are now working in the Defense Department, we are using the requirements as set forth by MAAGS who are the field representatives and the best informed I think as to whether or not a country can properly receive this equipment. Using that as the criterion as to whether this equipment should be delivered, we are attempting to do everything we can do to make this program revolve around the requirements as stated by the MAAGS in those areas from a timing point of view when they need the equipment.

Specifically in answering your question from the full calendar or

fiscal year 1957 I cannot give you that figure.

We can draw them off from the time phase requirement report which we are using now.

## TIME PHASE REQUIREMENT

However, the purpose of the time phase requirement report, and I think it very important that we understand this, is to give you a current evaluation of what you need.

It is one thing to program this equipment and say we plan to give

20 tanks to this country, 50 to another, and so forth.

It is another matter when you come to ship them, which may be some considerable time later, to be sure the country is ready to receive them.

The time-phase requirement report is a little more complicated but it is nothing more than a report on a retail business where you know you have got to get inventory in the hosiery department for Easter if the stocks are low, and it is not necessarily the furniture department because that is not where the business is.

Included in the time-phase requirement report is the ability of the country to absorb the equipment that has been programed and which ties in with the overall basic program that was set up for that

If it is, say, \$100 million in total that the country has programed, the time phasing is an attempt to get items in there when they need them rather than just trying to ship helter-skelter on some mathematical percentage basis.

It is not perfect, sir, at the moment, but I have great hopes that it will be a very important tool in getting these things there when they

will do the most good.

Senator HUMPHREY. I am sure that it will be and that is, I think,

interesting and valuable information for us to have.

I recognize the importance of getting the equipment at the time you say they can use it.

Mr. McGuire. We do not get any credit for putting it on a piece of paper. We get the credit when we deliver the goods.

## EFFECT OF INCREASED AUTHORIZATION ON DELIVERIES

Senator HUMPHREY. The thing I think we ought to keep in mind for the moment is in fiscal 1956 there was a total of \$105 million plus of military assistance.

In fiscal 1957 there is almost \$472 million.

Mr. McGuire. Right.

Senator HUMPHREY. That does not mean, however, does it, that there will be approximately four times as much military equipment and military assistance delivered on the spot?

Mr. McGuire. No, it does not.

Senator Humphrey. Does it mean that there will be about the same amount that you had in 1956?

Mr. McGuire. No, it will be an increase.

Senator Humphrey. It will be an increase?

Mr. McGure. Because we are endeavoring to deliver faster overall around the world—I am attempting to get this thing into a position where, when we have a commitment, the sooner we deliver it the better.

Senator Humphrey. Why was it so small an amount last year?

I am asking these questions for the purpose of being able to interpret and justify this program.

Mr. McGuire. I was not here last year, Senator, as you know.

## REASONS FOR MILITARY AID INCREASE

Senator Humphrey. What has happened in the year militarily that necessitates this sudden increase?

Mr. McGurre. It would be my interpretation that two things have

happened.

One, I think, and I am not being critical about this, I am trying to analyze it as I see it with an unprejudiced viewpoint, that there was just so much money and it was spread on the basis of where there were the highest priorities for requirements.

Two, that we have taken, I think, considerable forward steps this year as a result of some plans we put into effect of trying to determine what the total deficiencies were, so we know what the amount will be.

And three, in this particular area I am not at all sure that we have squarely faced up as to what the bill was in front of us, which I am trying to do this year.

In other words, if you have got a bill, you might as well try to

evaluate what it is so you know what you have got to do.

That is my personal opinion and it is not based on fact but I think there is considerable merit to it.

## RATE OF OBLIGATIONS

Senator HUMPHREY. I notice in a staff memorandum that has been afforded us that one of the items on page 3 concerns the rate of obligations.

It says:

The table, "Status of obligations," page 45, volume I, of the presentation book shows that in the first half of this fiscal year agencies other than the Defense Department obligated only \$253 million out of \$1,696 million available for obligation.

None of the funds totaling \$134 million for development assistance in the

Near East, Africa, and Asia had been obligated.

In the defense support category for those areas, only \$169 million out of \$961 million had been obligated at the first half of fiscal 1956.

That would be about January 1, I gather.

Mr. McGuire. I can speak to the position of defense only, as far as the obligating of the 1956 funds is concerned. For all practical purposes, due to the reprograming and getting ready to fund, they were practically in a starting period at that time.

We do have a witness prepared to go on and give a complete and detailed explanation of our position on the obligations and that type

of thing.

I would prefer he do it.

I can if you wish me to go into detail but I am not as familiar with the figures as he is.

Senator Humphrey. It is getting late and I do not want to keep us

here

Mr. McGurre. I think that cutoff date, sir, is not a good date to evaluate where you will be at the end of the year because of the fact they were just getting through refining their programs and actually finishing their plans so they could go to work and complete them from a funding point of view.

Senator Humphrey. That is of course if you base these programs

on year to year planning which you do not.

Even though we have never had long-term commitments, we have surely had some long-term planning with these countries.

Mr. McGuire. That is correct, sir.

Senator Humphrey. And I must say that it gets rather difficult in the Senate to justify some of these authorization requests when there are these unobligated funds. Your argument is that the program just gets more or less underway by December 31?

Mr. McGuire. I am only telling you what I have arrived at,

## JUSTIFYING UNOBLIGATED BALANCES

Senator HUMPHREY. My point to you, sir, is this: That if it was a brand new program, something that we started right from a fresh start, then you might be able to make that statement with validity or

at least with plausibility.

But I am afraid we are going to run up against certain critics and men of sincerity and good will who will say: "Why do you ask for an increase of over \$300 million in military assistance for the Middle East and Africa. Out of the total amount of funds available in the fiscal 1956, in this area in the defense support category only \$169 million out of \$691 million had been obligated 6 months after the beginning of the fiscal year?"

This gets to be a tough one.

I know there is a rationalization for this and I do not want you

to go into it right now.

I would just like to say that if you can develop some argument which justifies your position it would help. I am not looking for an argu-

ment with you. I am looking for information that is honest, that is forthright, that can justify it.

Mr. McGuire. You are certainly entitled to that.

Senator Humphrey. Senator Mansfield went through this last year. This was one of the most embarrassing experiences I think we had in the Senate when we found funds suddenly cropping up day by day and hour by hour. That was rather embarrassing to some of us who had voted against cuts.

I know that Senator Long offered an amendment to cut that I

voted against.

I have forgotten how the vote came out, but 2 or 3 hours later I found that a substantially larger sum of money turned up in the unobligated funds than I had been led to believe in this committee.

As one Member of the Senate I would like to have the facts. I am sympathetic to your program. All I want is the facts so I do not have to feel slightly embarrassed over my vote 2 hours or a day

Mr. McGuire. I assure you, Senator, I don't know the full details of that episode last year, but it is my intention to see to it that you have the best information that we can give you on this.

The CHARMAN. It will be well for you to give us a memorandum on some points of that kind so that we can have the information.

(The information requested is as follows:)

At this time the best estimate of the unobligated balance, worldwide, of the fiscal year 1956 military assistance program as of June 30, 1956, is \$195.5 million.

Mr. Dorsey. We shall attempt to give you that on the economic aid side too, Senator.

Senator HUMPHREY. If you can just present it to the committee

for our record.

The CHAIRMAN. Any other questions?

Senator HUMPHREY. No; I want to yield now.

I think we will have a chance later on to come back to this point 4 business which I am interested in.

The CHAIRMAN. Are there other questions? Senator Mansfield. Just a few, Mr. Chairman.

## BACKGROUND OF WITNESS

In looking over the schedule Mr. McGuire, it appears that you are going to carry the load for the Defense Department in these hearings: is that correct?

Mr. McGuire. I think that is so.

Senator Mansfield. Could you tell the committee something about your background?

I think we should have some information on that.

Mr. McGuire. I appreciate that, Senator. I have been in the retail business most of my life. During the war I was in the Navy Department. I handled the negotiating of contracts, headed up the Negotiating Section of the Bureau of Ordnance.

I later instituted and set up the section in the Navy Department which was called Repricing, which I am sure Senator George is familiar with. It operated under—I believe it was title VIII of the Rev-

enue Act of 1943; wasn't it, Mr. Chairman?

The CHAIRMAN. I think so.

Mr. McGurre. That made it incumbent upon the Secretary of the service, if he discovered a company was making an excess profit, to try to work with the company and not leave it to renegotiation at the end of the year.

I later became Chief of Procurement for the Navy Department succeeding Lionel Noah at that time—it had previously been Frank

Folsom.

At the end of the war, I went to Boston as president of the R. H. White Corp., a large retail corporation. In 1948 I went with Allied Stores Corp., and went out to Cleveland as president of Sterling Lintner Davis, a department store in that city. This was a combination of three stores that they had purchased.

I do not know which was the most difficult, Senator, putting that

together or learning this business down here.

When Mr. Wilson sent for me I was president and managing director of that corporation and also a director of the Allied Stores Corp. of Ohio, which handled a substantial part of their total volume in the State.

I came down here at Gordon Gray's request. With my background in the procurement end of the Navy, and the merchandising business, I thought I could make a contribution to this program.

I think fundamentally—certainly from my point of view—my job

is not the policy job in this area.

Obviously I have some part in it, but it is more the operating end of the program, the military assistance program.

Gordon is making great efforts to pin down this whole operation

and make it more factual.

There is not a great deal of difference between the operating end of this program once you learn some of the terminology and can understand some of the background of it which I have had my difficulties with and still do and merchandising.

It is an inventory, a supply business that we are talking about here. Senator Mansfield. You have been in this particular position how long—6 months, 8 months?

Mr. McGuire. Since October.

MII. MOGOTRE. DINCE OCCUDEL.

Senator Mansfield. Seven months roughly.

I have some questions, Mr. Chairman, but I do not think I will ask them now because I think Mr. Dorsey is going to be back again before the committee and the questions I have will be directed to him at that time and at Mr. McGuire too, sir.

The Chairman. We thank you gentlemen for being here today and I expect you will be back with us again tomorrow at 10:30 in the

caucus room where we will hear Mr. Gordon Gray.

He will be on in the morning.

Thank you, gentlemen.

(Whereupon, at 4:55 p. m., the committee was adjourned, to reconvene at 10:30 a. m., Wednesday, May 9, 1956.

## MUTUAL SECURITY PROGRAM FOR 1956

## WEDNESDAY, MAY 9, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to call, at 10:30 a.m., in the Caucus Room, Senate Office Building, Senator J. William Fulbright presiding.

ing.
Present: Senators George (chairman), Green, Fulbright (presiding), Sparkman, Mansfield, Morse, and Smith of New Jersey.

Senator Fulbright. The committee will come to order.

We are very pleased to have this morning the Honorable Gordon Gray, Assistant Secretary of Defense, who will give us a statement on the foreign aid program.

Mr. Gray is well known in Washington, having been here for many years. He sort of commutes back and forth between the University of North Carolina and Washington and brings a certain intellectual point of view which we need very much in this committee.

Mr. Gray, we are delighted to have you.

Do you care to read your statement or do you wish to put it in the record and summarize it? You may do it either way.

# STATEMENT OF HON. GORDON GRAY, ASSISTANT SECRETARY OF DEFENSE (ISA)

Mr. Gray. Mr. Chairman, thank you very much.

I am happy to appear before the committee and to find that in the chair at the moment is a Member of the United States Senate who himself brings intellectual tone to the affairs of the Government; and the other committee member present also by virtue of his experience in education does the same.

Senator Fulbright. I may say that the chairman has been detained, and we hope Senator Green will come a little later.

I am just acting in this position temporarily.

Mr. Gray. I understand, sir.

Senator SMITH. I wish to take exception to the acting chairman's statement. In light of his distinguished career as the president of a great university at one time and with his many intellectual contacts, I want the record to show I don't think he at least is lacking——

Senator Fulbright. I do not believe I said we were lacking. I said

we welcomed.

Senator SMITH. I am glad it is not lacking.

Senator Fulbright. Now that the Senator from Rhode Island is coming, we are in good shape to proceed.

Senator Green. Mr. Gray, will you kindly proceed? I am sorry to be late but I had another committee meeting.

## POSITION OF THE DEPARTMENT OF DEFENSE

Mr. Gray. Yes, Mr. Chairman. I appreciate this opportunity to appear in support of the fiscal year 1957 mutual security program, which has been developed jointly with the Department of State and with the International Cooperation Administration and is being pre-

sented in all its aspects in cooperation with those agencies.

The Department of Defense supports the mutual security program in its entirety and specifically endorses the defense support program for which the International Cooperation Administration has responsibility. However, I shall today address myself chiefly to the military assistance program which is the responsibility of the Secretary of Defense.

I consider all programs encompassed by the Mutual Security Act as distinctly related to the security of the free world. Defense support funds are essential to the military efforts of those partners in the

free world who have limited economic strength.

Beyond that, the economies and societies of those partners cannot persist and develop without the economic growth necessary to their freedom and independence. Thus, our economic and technical assistance programs advance the strength and security of the United States and the whole free world.

The President has requested \$3 billion for fiscal year 1957 to carry out the military assistance features of the mutual security program. This is a large sum, but one which we believe is necessary. The recent changes in Communist tactics and the current Soviet emphasis on economic infiltration provide no basis for relaxing our collective security efforts.

We cannot assume that there has been any abandonment of the Soviet long-range objectives for world domination or shorter range

efforts for progress toward this goal.

Therefore, we must continue to carry out a policy of insuring our own security by sound military defensive measures.

Senator Fulbright. Mr. Chairman, I wonder if we may ask ques-

tions as we go along or shall we wait?

Senator Green. Well, witnesses as a rule do not read the whole paper that they prepared. The members have copies to read at their convenience. If we wait, we may have to wait indefinitely. It would seem to me wiser to proceed.

Senator Fulbright. We will proceed in which manner?

May I ask questions or not?

Senator Green. Would you prefer to defer the questions until you have finished your presentation?

Mr. Gray. Mr. Chairman, I would like to follow the wishes of the members of the committee and it would make no difference to me.

Senator Fulbright. As far as I am concerned I would like to ask

a question.

Senator Green. It seems to me that as a habit of interrupting it is bad because he may answer the questions in another part of his statement.

Senator Fulbright. On the other hand, Mr. Chairman, these prepared statements are so long that our patience is worn out. We have forgotten all our questions by the time he is through.

Senator Green. There are disadvantages either way. I will leave

it to the witness to decide which he would prefer.

Mr. Gray. I do not know how strongly Senator Fulbright feels about it. Why don't you ask your question and hold them to a minimum if you can, Senator?

## RECENT CHANGES IN SOVIET POLICY

Senator Fulbright. I won't ask many. There is just one that interests me that occurs in all of these statements.

On your first page you say-

The recent changes in Communist tactics and the current Soviet emphasis on economic infiltration provide no basis for relaxing collective security efforts.

Mr. Gray. Yes, sir.

Senator Fulbright. The thought occurs to me that if they had continued with aggressive gestures in the military field, that certainly would provide no basis for decreasing military expenditures on our part. Now they have changed apparently to economic infiltration. You say that provides nothing.

Can you imagine any circumstances that would appeal to the military as giving an excuse for shifting emphasis from military to eco-

nomic or cultural activities?

Apparently there is no set of circumstances that could possibly

justify decreasing military expenditures.

Mr. Gray. Well, I do not think that is correct, Senator. I think there would be circumstances which have not presented themselves.

Senator Fulbright. Can you speculate as to such imaginary circumstances for the benefit of the committee?

It seems to me if they are shifting to cultural and economic activities, that that is a reasonable ground for us to counter with economic and cultural activities.

Mr. Gray. I think the difficulty is in the assumption that there is a

shift.

I think that the economic penetration programs of the Soviet Union have not taken the place of their armed military strength or the development of their own war machine or those of their satellites or of Communist China, so that I do not think that you can say there has been a shift in——

Senator Fulbright. I am not saying it, Mr. Gray, you said it— The recent changes in Communist tactics and the current Soviet emphasis on

economic infiltration.

Isn't that what that statement means, or do I misread it?

Mr. Grav. I should say that the statement intends to say that there is an added emphasis tactically on economic and other types of penetration, but we have no reason to believe that there has been any reduction in Soviet or Soviet satellite military strength.

Indeed in certain areas of the world a buildup of strength has

continued.

North Korea, Communist China, Viet Minh give us no reason to believe that we can relax our security efforts.

Senator Fulbright. If that is true, why don't you say that! I think I read the English language like normal people. That is not what this statement says, and I cannot interpret it to mean that there is a buildup in military strength by the Soviet.

In fact, it means the opposite to me. I have noticed before a tendency on the part of other members of this administration to talk in ways that I cannot understand. They seem to say different things

one day than the next.

It is extremely difficult to understand.

Do I understand you to say now that we want an increase in funds in mutual aid because the Soviets are increasing and maintaining their military machine?

Is that what you mean to say?

Mr. Gray. I think that is a part of what I would like to say. As I will point out in the statement later on, the increase in funds is brought about in part because we have been expending military aid funds for the last couple of years at a rate greater than appropriations have been for these funds.

Senator Fulbright. That is an entirely different matter than we discussed before. What I am trying to get at is your view as to what the Soviets are doing and what should be our response to it? Is it your view that they are increasing their military potential, are they

arming to a greater extent, or are they not?

And as I interpreted this statement, they are shifting from military to economic infiltration. We have been led to believe by the press—and I certainly do not wish to defend the press—I think we are often misled by the press—but anyway, we have been led to believe that there is a shift from military to economic and cultural activities on the part of the Soviet, especially in the Middle East.

That is what the press tells us. I do not know whether it is true

or not.

Mr. Gray. Certainly I think most everybody agrees that there is an increased emphasis on the economic activities, there is no question about that.

Senator Fulbright. Increased relative to what?

The word "increased" if I understand it, is a word compared to something. To military?

Mr. Gray. No, to what it has been in the past. Senator Fulbright. But no decrease in military?

Mr. Gray. I know of no decrease in the military, Senator.

#### PROGRESS TOWARD PEACE

Senator Fulbright. I think that ought to be very clear, that we have been under a misapprehension. We have been misled. The Soviets have announced in statements that they are reducing their armed forces by 1,200,000 men, the announcements which I take from your statement you do not think are very significant, or it is untrue?

Mr. Gray. Well, I would rather say I do not think it is significant. Senator Fulbright. So that we need more arms and you think that

is the wav---

Mr. Gray. We need to continue the military-aid programs on which we have embarked, and for a large part of this program this does not provide equipment for buildup of forces.

For example, in the European area this does not contemplate any further buildup of forces. In certain parts of the program, there is provided within this requested appropriation some buildup of forces. But by and large what we are saying is that it is important to continue our collective security efforts, of which the military-aid program is an integral part.

Senator FULBRIGHT. You will agree that after the Geneva meeting there was promoted a feeling in this country that we had made

progress toward peace.

The great peacemakers had met and they had agreed this was going to be a more peaceful era.

Mr. Gray. Many people had very high hopes following that. Senator Fulbright. Wasn't that the impression spread abroad by the President of the United States?

Mr. Gray. I am sure he expressed many times his hope that we were

making progress.

Senator Fulbright. That leaves the impression—he is a responsible official. It certainly would not lead to the conclusion that we

ought now to increase military force, military capacity, would it?

It seems to me you are faced with an inherent inconsistency, that you cannot have it both ways. The administration cannot be both. making great progress in peace and at the same time confronting situations that require buildup of military strength.

It seems to me you must take your choice.

Mr. Grav. I would remind you, Senator, that there followed the Summit Conference, the Foreign Ministers Conference in Geneva at which time various commitments which had been made by certain of the foreign ministers, particularly that of the Soviet Union, were in effect rejected at the Foreign Ministers Conference in October and

I have in mind, particularly, for example, the commitment that there should be progress toward the reunification of Germany by reason of free elections.

At the October-November conference this was flatly rejected by

the Soviet leadership.

It would be hoped that at these meetings of the heads of governments, agreements which are reached can be carried out. This seems not to have been the case. The high hopes which came out of the conference I think were based in large measure on President Eisenhower's offering to open up between the two countries principally concerned with atomic weapons, his proposal to open up for inspection so as to create an atmosphere of greater mutual confidence and to prevent surprise attack. It was a great gesture which caught the imagination of the people of the world.

This has been constantly and repeatedly rejected by the leadership

of the Soviet Union.

#### INCREASED MILITARY ASSISTANCE

Senator Fulbright. I will not pursue it any further.

One other question, though: I still do not think you have answered

Let's assume that they have not decreased their military potential, it is about the same. If we maintain our military power at the same level, assuming that military and economic assistance were about properly related according to the judgment of our people, and the Soviets increase, as you say, emphasis on economic infiltration.

If that is the situation, why does that justify increasing military assistance? Why does it not justify an increase on the part of economic and cultural activities to counter their increased emphasis on economic infiltration?

I do not follow the logic of responding to this emphasis on an economic infiltration by a vast increase in miltary. It does not seem to

make a pattern that's logically explicable.

Mr. Gray. Let me try to answer your question, Senator. In the first place, it is my belief that the Soviet line can change at any time. We have seen throughout the history of the Soviet Union since the revolution, shifts in tactics which mean even rewriting their own history.

They are in the process of rewriting their own history now on this

de-Stalinization program they are engaged in.

I think that there is no reason to assume any persistent or continued threat in their foreign policy. Indeed, we would be very mistaken to assume that the use of force or threat of force, threat of the use of force, has disappeared from their arsenal which they may dip into at any time in the world situation in which we find ourselves.

I say that there has been no reason for us to believe that they have reduced their ability to apply force either with their own troops or with the satellite or Communist China troops. We recognize that they are putting added emphasis on economic penetration. They are not making noises which sound like the threat of military force at this time, and to that extent there has been a change in what they are saying the goal of their power position is.

I say, however, that since in their history it has been demonstrated that they can change at any time, and since they have not reduced their military strength, and in certain areas subject to their control or influence a military buildup continues, I say that we cannot assume that our valid efforts to produce collective security arrangements

should be reduced.

Senator Fulbright. Well, it is not reduced. You are increasing it

by 40 percent in your request this year.

Mr. Gray. Senator, if you are speaking of the increase between requested appropriations or the increase over what was appropriated

last year, this is an increase.

I remind you that for the most part the support which we would give through this program to those countries who are the recipients of military aid does not contemplate buildup, but continued progress toward meeting the deficiencies in their planned forces upon which we have been embarked for several years.

Other than the new weapons concept which we have tried to bring into this program, the buildup is not a very significant one. For the most part it carries forward the programs on which we are already

embarked.

Now it is true that the President has requested an amount of money which is greatly in excess of what was appropriated by the Congress last year, and to that extent there is an increase.

But in the total program, we are not engaging in any significant buildup worldwide or planning this with the funds which the President is requesting.

Senator Fulbright. Do I understand then that you simply discount

the significance of the emphasis on nonmilitary infiltration?

Mr. Gray. Indeed I do not, Senator. I think that—

Senator Fulbright. I do not quite understand you. I asked why would you admit that they are presently, whether it is sincere or not, emphasizing nonmilitary infiltration, economic infiltration, and we respond by military increases rather than nonmilitary?

You know about 15 percent of this program is nonmilitary, which

is a relatively small part.

I think I have made it plain, I think your emphasis is out of balance. I think there should be much more emphasis upon the nonmilitary, to meet a nonmilitary threat.

If they change why shouldn't we change? Why should we take the attitude that we ignore their changes because we think they are not

sincere in their actions?

Mr. Gray. I do not think we take the attitude of ignoring this new effort they are making in the economic field. I think it is very significant.

#### MORAL PRINCIPLES OF THE PROGRAM

Senator Fulbright. Why don't we respond with a like increase in economic and cultural activities?

Mr. Gray. You are getting me a little out of my field of responsibility now, Senator, because I have responsibility only for the military aid aspects of this program.

My own feeling is that when you say "respond" if you mean that every time the Soviets make a move, we try to counter it with a more

attractive move, that is not the way to operate foreign policy.

I think we should have sound economic programs which can meet our foreign policy, meet the moral nature of our foreign policy, and

I feel that morality has a vital role in foreign policy.

I believe under present circumstances it is deeply involved in what we try to do. If you are asking me whether there should be more economic aid in this bill, I am afraid that this is a question which involves a field for which I have no responsibility.

Senator Fulbright. What did you mean by "involved in our moral

responsibility"?

I did not get the significance of the morality in this program. What are the moral principles involved in this program?

Mr. Gray. At the risk, Mr. Chairman, of getting a little afield from

military assistance——

Senator Fulbright. I assumed this was a moral program. I was interested in what you meant by it. You suggested that you are carrying out a moral principle in this program. It is not my suggestion. I was merely asking what did you mean by that?

Mr. Gray. I suggested that moral considerations were deeply in-

volved in our foreign policy as a whole.

Senator Fulbright. Is this program based upon some moral principle?

Mr. Gray. I think moral principles are involved. I shall be glad to answer your question.

Senator Fulbright. I do not see that it is. I criticized it because

it is easy and traditional and orthodox.

This administration comes in and asks for more money for arms and they have no imagination, they are unwilling to consider just what is the significance of the increased economic and cultural program of the Russians and we are simply reverting to the old traditional buildup of arms.

That is what I think is wrong with it. I am surprised that you would not as a professor come in and advocate that we increase our

exchange program for example instead of decreasing it.

I think it is wrong and it is self-defeating, and, if you like, an

immoral program if there are any morals involved.

I do not think there are any moral principles involved in this-

certainly this program. It is purely military.

Mr. Gray. I was not speaking of the military aid program alone. I was referring to our foreign policy as a whole, Senator, and I will be glad to amplify on that if you will indulge me.

You have adverted, and properly, after having pointed out in the remarks I had heretofore made, to the new emphasis on economic

penetration of the Soviet Union.

It is my feeling that in the international scene insofar as economic aid, technical assistance, military assistance matters are concerned, the Soviets are embarked on programs which seem to compare favorably with the programs that we have carried on for a number of years under this administration and the previous administration.

It is my conviction that in the end we will prevail over the other system, simply because of what are the basic differences between the

two systems.

Not because of materialistic supremacy, nor our ability to deliver military aid quickly and flexibly, nor the manner in which we render technical assistance, but because ultimately the very basis of our civilization, which I believe to be the freedom of man under God, must

prevail in this power struggle.

I think that our whole foreign policy must take this concept into consideration. To the extent that the Soviets begin to engage in practices which we have engaged in over a period of years, economic assistance, technical assistance, it would seem to me that our policy has brought them nearer to our own position, but I think that ultimately the difference between these two systems is the recognition of God-given freedom and the dignity of the individual.

This is now the basic difference between the Soviet system and the

way of the West as I see it.

Therefore these various facets of our programs, technical assistance, economic assistance, military assistance are instruments, but the basic core must be the insistence upon the freedom of man.

I simply made an observation that I think that our foreign policy properly takes into account this basic consideration. I did not seek to relate it specifically to the military aid program.

## SHIELD AGAINST AGGRESSION

Senator Fulbright. I conclude by saying I do not think a program that gives 85 percent of all the funds involved to a military effort reflects the philosophy of what you have just said. It sounds one way in the actual bill but the authorization is directly the opposite.

It is a militaristic request. It does not conform with what you say. I agree with most of what you have just said with regard to this, but it is inconsistent.

Mr. Gray. I do not agree with the inconsistency, Senator, because it is my conviction that as long as the threat of force and the successful application of force by the Soviet Union and/or its satellites is concerned, we must maintain this shield against military aggression, this deterrent to war which would be so destructive. A general war—well, there would be no point in our discussing the effects and destructiveness of such a conflagration here.

I am simply saying that it is our conviction that we must maintain this defensive strength and this deterrent to aggression, and it is my conviction that a large part of the deterrent to aggressive action by the Soviet Union, the satellites and now Communist China, a major part of this deterrent has been the military strength generated by the

mutual security program.

Senator Fulbright. You are the first one that has said that. I thought the deterrent was the existence of SAC and the existence of the power of retaliation by the United States Armed Forces and not Pakistan or Iran or Iraq or any one of these little countries that you are dealing out a few planes to.

I never heard anybody assert before that that was what deters the

Russians. It is our power to retaliate that deters them.

Churchill said that and our own people have said that, and we spend \$40 billion or \$50 billion a year on that project. That is entirely aside from this.

Mr. Gray. That is right. That is a major deterrent.

But I would say to you, Senator, that the development of strength in Western Europe through NATO has likewise been a deterrent to a move against Europe by the Soviet Union. Obviously our retaliatory power is a deterrent to total general nuclear war.

I believe that, for example, the military forces we are supporting in the Republic of Korea are a deterrent to movement by the North

Koreans to take over physically the whole of Korea.

I think that there are local deterrents as well as the major deterrent to a nuclear war which as you have correctly said, certainly is in large part our retaliatory power.

## ADMINISTRATION OF FOREIGN AID PROGRAMS

Senator Green. There is a phase of the matter about which you have just been interrogated. I would like to draw attention to the report which I made of a study mission on which I was sent investigating technical assistance in the Far East and the Middle East last fall.

The report is dated January 15, 1956.

I will just read a couple of paragraphs.

It relates to administration:

So far as field operations are concerned, the reorganization of July 1, 1955, in which foreign economic programs were returned to the Department of State has made little difference.

Then after another paragraph I go on:

The reorganization of July 1, however, has caused one important difficulty. This relates to administration of direct forces support, the civilian-type items for military use. Executive Order 1060 of May 9, 1955, issued under authority of the Mutual Security Act of 1954 transferred administration of direct forces support which had been in the Foreign Operations Administration in the Department of Defense.

This change has not been carried out smoothly. The military assistance advisory groups had no personnel capable of performing the new task, and in late September and early October no such personnel had been forthcoming from

Washington.

The result is a hiatus in the direct forces support program.

I do not know whether you care to comment on that in view of the long interruption of reading your report or not. If so, I will

be glad to hear it.

Mr. Gray. Mr. Chairman, as your report indicated, this responsibility was transferred as of the first of the fiscal year to the Defense Department. We were not I think, either here in Washington or in the field immediately equipped to discharge the responsibility as it was a new one. I would be the last to appear before this committee and to say that we have performed this function according to standards which would be acceptable to this committee or indeed to ourselves, but I do think that we have now become organized to discharge it and I think it is going relatively well now, sir.

Senator Green. I do not know what you mean by the term

"relatively."

Mr. Gray. Relative to normal standards of performance. What I am trying to say is I would not assert perfection for it.

Senator Green. You mean it is better than it might have been?

Mr. Gray. Yes, sir; I think I could safely assert that.

Senator Green. Now if you would continue with the reading of your statement, such portions of it as you think——

Mr. Gray. Mr. Chairman, I should be glad to continue with the reading or if the committee prefers, to submit it for the record.

I wish to be guided by your own wishes in the matter.

Senator Green. Suppose you read what you consider the salient portions and draw attention to the omissions which we can read sep-

arately and put the entire report in the record.

Senator Smith. Mr. Chairman, I am completely confused by interruptions. I had hoped today to get the consecutive story of the Department's position. I feel we won't get the record clear. The record is so confused now I do not see where we are getting.

Senator Green. Suppose you continue and read the entire report

and we will defer any further interruptions until the end.

Then there won't be interruptions.

## SOUND DEFENSIVE MEASURES

Mr. Gray. Mr. Chairman, I will resume reading at the top of page 2 of my prepared statement. I had said that we must continue to carry out a policy of insuring our own security by sound military defensive measures.

It is not enough to rely on our own strength alone; we must help to develop the collective strength of the free nations of the world as a whole.

, a**s** 

It is to our own interest to assist nations willing to work with us to maintain the general defensive strength of the free world. Thus our military security is based upon maintenance of strong United States forces supplemented by a series of formal alliances in which other nations have agreed to join with us in the interest of the collective security of the free world. Our military assistance program is designed to support these alliances. In addition, there are other countries where we are providing limited grant military assistance even though the nations are not formal allies.

Also, under the military assistance program, we sell military equipment to nations, even including those with which we do not have collective agreements, when the President receives satisfactory commitments that such equipment is required for, and will be used by, such nations solely to maintain internal security or legitimate self-defense or to permit them to participate in regional or collective security arrange-

ments consistent with the U. N. Charter.

Our partners of the free world form an integral part of the security plan of the United States. In the strategic and budget planning of our own Army, Navy, Air Force, and Marine Corps we take into account the military capabilities of these allies. Without their strength and capabilities, much of which has been developed through the support given by United States military assistance, our own planning would have contemplated appreciably higher service budgets and force levels.

Indeed it is doubtful that the United States would have had the manpower or economic resources unilaterally to achieve and maintain the present high degree of military security which collective efforts have secured for the free world. It is equally true that if we do not carry forward our military assistance program, the present military strength of the free world could not be maintained and our own service budgets would have to be materially increased at a cost probably considerably in excess of our proposed military assistance expenditures.

# CONTRIBUTION OF THE UNITED STATES TO THE DEFENSE EFFORT OF OTHER NATIONS

There are several ways in which we contribute to the defense efforts of our friends abroad. To the NATO countries (except for Greece and Turkey) and to the Latin American nations we limit our military assistance to military weapons, equipment, and training.

To some of our other allies military assistance includes the provision of some soft goods and construction which has formerly been

referred to as direct forces support.

This year—as has been indicated in Senator Green's reference to his report—the Defense Department has been assigned responsibility for administering this type of program. It will be integrated with

other forms of military assistance.

The economic resources of many of our allies (e. g., Korea, Taiwan, Turkey, Pakistan, Vietnam) do not permit them to maintain an adequate level of defense without some assistance from the United States in the form of defense support which contributes in various ways to the military effort of the countries concerned and also helps them in meeting pressing economic problems.

This type of aid, when added to their own expenditures, enables those countries to keep in existence military strength of great importance to the defense of the free world. This additional military

strength would not otherwise be available.

These and other partners make important contributions to the common defense by contributing air and naval bases in strategic parts of the world and facilities of various types for which there is no satisfactory substitute.

## HOW THE PROGRAM IS DEVELOPED

Although the members of this committee are familiar with the general character of the programs through our presentation of prior years, and many of you have seen parts of it in operation through valuable firsthand observation, I believe it will be helpful to review how these programs are devised.

Our individual country programs are developed in the first instance by the military assistance advisory group working with representatives of the recipient country. The program is then coordinated with and reviewed by the country team which consists of the ambassador,

the chief of the economic mission, and the MAAG.

The military aspects of these programs are reviewed by the responsible United States unified command abroad, and then forwarded to Washington. Here these programs are checked by the military departments to insure that they have the capability to provide the

required items, either from stocks or from new production.

Military review by the Joint Chiefs of Staff insures that these programs are in keeping with United States military objectives. After final refinement by the Office of the Secretary of Defense, the programs are again coordinated with the Department of State and the International Cooperation Administration to insure that they are consistent with our economic and political policies.

Thus, political and economic considerations are taken into account from the inception of the programs to the final presentation to the

Congress.

We have already provided to our allies large quantities of the best equipment and material currently available to our own United States forces. We have been furnishing such modern items as advanced fire-control radar for antiaircraft weapons and ships, self-propelled, highly maneuverable 155-millimeter howitzers, up-to-date systems of interconnecting telecommunications, and modern tactical aircraft.

This equipment would be essential to our own forces or those of our allies in any combat situation which might arise today or in the

foreseeable future.

## ADVANCED WEAPONS

Concurrently, however, the United States has developed and is procuring for its own forces a whole range of advanced weapons, typified by guided missiles and much improved early warning and communications equipment. This represents an important advance in the concept and execution of defense against aggression.

In December of last year at the NATO Council of Ministers the Secretary of State and the Secretary of Defense had important dis-

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cussions with our allies about the employment of those advanced weapons in the defense of free Europe. These conversations were pursued in more detail at a followup meeting of the North Atlantic Treaty Organization in Paris in February which I attended.

In consequence President Eisenhower included in the militaryassistance program for fiscal year 1957 a considerable sum to make a start on helping our allies to become equipped with advanced

weapons.

Production of weapons of this type is a lengthy process. It is essential that funds be available now in order that production may go forward while detailed plans for the allocation and strategic use of these weapons are being perfected. Appropriate security safeguards will be worked out in detail before delivery.

These weapons and other new equipment will considerably improve the defense of the areas in which they will be located. They will also contribute very directly to the long-range defense of the United States. This is especially so in the case of early warning equipment.

While the advanced weapons will not threaten any nation which does not initiate aggression, they will give our allies an improved capability to resist attack by the modernized Communist forces.

The knowledge that these weapons are available should serve to

The knowledge that these weapons are available should serve to deter aggression; the fact that they are in place will make it easier

to repel such aggression should it occur.

Taking into account the growing military potential of the Soviet bloc and their rapid scientific development in the field of weapons, it is plain that we and our allies must keep our defenses adequate to meet new weapons and new methods of aggression. The advanced weapons program now proposed is our most recent effort to achieve this result.

Senator SMITH. Mr. Gray, do I understand that that figure is about

500 million?

Mr. Gray. About 500 million, yes, sir.

The designs of advanced weapons, created by those working on the frontiers of scientific knowledge, are subject to rapid change. Obsolescence begins as new scientific principles become ready for practical development and application. Thus it is to be expected that the advanced weapons program will be modified and improved as time

goes on.

Some additional types of weapons may be substituted in the program, if that appears to be desirable. Our existing programs are constantly being reviewed in an effort to improve them when opportunity offers. Advanced weapons will be substituted for older weapons in cases where that seems appropriate and feasible; \$195 million of these weapons have been included in the fiscal year 1957 program specifically for NATO countries. The eventual distribution of the balance of the advanced weapons included in this program will be made on the basis of a determination now under study by the Joint Chiefs of Staff as to the most effective employment of such weapons on a worldwide basis.

# MUTUAL WEAPONS DEVELOPMENT PROGRAM

It is particularly appropriate to mention the mutual weapons development program for which we are requesting \$58 million. It is hoped that through this program (which will be discussed in detail

later in the presentation before the committee) our European allies (and also to some extent, Japan) may increase their own capabilities to develop and provide advanced weapons for the common defense.

We will also continue to obtain some materiel by offshore procurement for the purpose of helping to maintain the munitions production base in friendly countries.

## MILITARY ASSISTANCE PROGRAM FOR EUROPE

A brief outline of this proposed military assistance program by

area may be desirable at this point.

(1) For Europe we ask approximately \$760 million to maintain the present level of forces and equipment which have been achieved through our past military assistance programs. With the exception of the \$195 million for advanced weapons, which I referred to above, these programs will assist countries of this area by providing principally training, maintenance, and spare parts and by replacing normal losses.

Even with the advanced weapons concept, existing programs must be in large part completed to insure defensive strength during the period before the advanced weapons become widely available.

Every advantage will be taken, however, of opportunities to improve the program for fiscal year 1957 and prior years in a manner adapted to the new defense concepts which can be employed in greater

degree when the advanced weapons are delivered.

There is no provision for building up or equipping additional forces beyond those previously planned. Our program is essentially to maintain the quality of the defensive structure in Europe which we have worked so hard to achieve during the past 7 or 8 years.

I might interpolate here this was the point I was trying to make in my colloquy with Senator Fulbright, that there is not a buildup in

NATO in the sense of supporting larger numbers of forces.

We are requesting an appropriation, under existing authorization for this purpose, of \$75 million as the contribution of the United States toward the completion of infrastructure construction projects

already agreed to in the NATO Council.

This amount, plus the unexpended balance of fiscal year 1956 money, will suffice to cover the United States part of the fiscal year 1957 program. We do not at this time ask for any new authorization for this program although new infrastructure projects will need to be undertaken in the future if facilities are to be kept abreast of changing needs and concepts of defense. Negotiations on the first portions of a new infrastructure program will be undertaken within NATO later this year.

# MILITARY ASSISTANCE PROGRAM FOR THE NEAR EAST AND AFRICA

(2) For the Near East and Africa, we ask approximately \$472 million. This area includes Greece, Iran, Iraq, and our energetic ally Turkey, which contributes a substantial share of NATO's ground forces.

Our past programs have already provided some of the basic equipment for improving the defense capabilities of the individual countries. Since the presentation of our fiscal year 1956 program, how-

ever, Turkey, Iran, and Iraq have joined with Pakistan and the United

Kingdom in a mutual defense alliance—the Baghdad Pact.

Although we are not members of the pact, we have been supplying its members with equipment and the fiscal year 1957 program proposes continued progress toward the planned equipment levels for those countries.

Although tension in this area has become increasingly great, those nations have indicated that they would prefer to work with the free world in finding solutions to their overall problems. They should continue to receive appropriate military assistance from the United States.

# MILITARY ASSISTANCE PROGRAM FOR ASIA

(3) For Asia we plan a program of approximately \$1.2 billion. This includes the equipment and supplies necessary to maintain the effectiveness of the forces in Korea, Japan, Thailand, the Philippines, Taiwan, and Pakistan.

The requirements of the still unsettled situation in Indochina are Here we are dealing with several situations where hostilities have been threatened within the past few years or have only

recently been discontinued.

Free world defenses obviously cannot be lowered in those regions, and military assistance and defense support must be supplied in adequate measure. Nearly half of our program (apart from the advanced weapons aspects) is in this critical area of the world.

## MILITARY ASSISTANCE PROGRAM FOR LATIN AMERICA

(4) For Latin America we plan a program of approximately \$36 Although our military assistance programs in Latin America are relatively small, it is essential that we continue to provide these items to sister republics to the south in the interest of our hemispheric defense.

On June 30 of this year, the end of fiscal year 1956, we estimate that there will remain some \$4.5 billion of undelivered items of military equipment provided for our military assistance program by previous appropriations.

# UNEXPENDED BALANCE

Senator Smith. That is worldwide of course?

Mr. Gray. Yes, sir.

I have now departed from the area discussion and am speaking of

the total program.

This represents about 90 percent of our so-called "unexpended balance." The remainder of this unexpended balance represents costs which are entailed in accomplishing deliveries plus relatively small unexpended amounts for contribution to the infrastructure program and other assistance for military construction.

The bulk of these undelivered items is either now in the course of being produced or prepared for delivery, or are in the hands of our own United States Military Establishment.

If the latter is the case, the unexpended money represents items in production to replace (and thus release for delivery to our allies)

United States service equipment, largely equipment from our mobili-

zation reserve.

The remaining equipment is on hand but undelivered as a result of unanticipated delays. The slowness with which the German rearmament effort has proceeded is a good example of this type of delay. However, to increase the free world's defensive capability, we must be prepared to make delivery of the items already on order and the new items in the 1957 program as promptly as possible.

The existence of these undelivered items does not diminish the urgent requirements of our military partners represented by our new

request for \$3 billion.

It should be noted that the unexpended balance referred to above will represent a decline of at least \$2.5 billion to \$3 billion in the 2-year period ending on June 30, 1956. This reduction will result primarily from the fact that during the past 2 years the amount of requested and actual new appropriations for military assistance was below the level of expenditures and deliveries.

Because equipment programed for our allies was diverted to the Korean battlefield and because of production delays occasioned by the demands of our forces in Korea, unexpected balances had become un-

expectedly large.

Now, however, as a result of the decline in those balances we have reached a point where we are compelled to request new obligational authority about equal to the total of the anticipated expenditures for fiscal year 1957 and of about half a billion dollars for advanced weapons and equipment.

## LEAD TIME

Most of these advanced weapons will not be delivered until fiscal year 1959 or later, although orders must be placed for these items now if we are to obtain timely delivery.

The problem of lead time on military items is a serious one. After the amount of appropriations is known, a period of several months is required to adjust programs to actual appropriations and to obtain

allocation of funds.

Contract negotiations also involve time. On this account our planning today is largely for the delivery of items in 1958 and 1959. This means that we must seek appropriations now in order to keep up

deliveries 2 and 3 years hence.

The problem of lead time and also certain administrative problems cause us to request that appropriations for military assistance be made on a no-year basis. This will result in more prudent commitment and management of available funds. It will also simplify procurement and accounting by placing military assistance funds on the same basis as the majority of funds available to our military services for procurement.

Mr. E. Perkins McGuire, Deputy Assistant Secretary of Defense for Mutual Assistance Programs, in testimony to be given in other hearings, will give more detail about the various regional programs and will discuss other phases of the military assistance program. He is in direct charge of that program and is working hard and effectively and devotedly with considerable success I believe to revise and im-

prove it to meet the growing Soviet military potential.

I have attempted to touch upon the important aspects of the military assistance program. As I stated in the beginning, although my appearance here is principally to discuss that portion of the mutual security program, the Department of Defense supports the entire program.

## HELPING FREE PEOPLES TO MAINTAIN THEIR FREEDOM AND INDEPENDENCE

From the military standpoint, in many areas of the world our security objective is largely served if we help free peoples to maintain their freedom and independence. The freedom of these peoples is important to us as a nation, even if they do not directly furnish military support to free world forces.

Many governments of recently created states, some of which are uncommitted in the cold war, are now barely established within their

own borders.

It is of major importance that we help them to remain wholly independent states in a free world. Loss of independence on the part of these nations would be a serious detriment to our own security

position.

I do not doubt that, if we in the United States proceed, with imagination and vigor and in a cooperative spirit, to advance our own security through collective measures, the nations outside the Iron Curtain will contribute, each in its own way, its fair measure of support in achieving the common goal of world peace and security.

This completes my prepared statement, Mr. Chairman.

Senator Green. I thank you very much for your statement. Are you willing to have questions asked now?

Mr. Gray. Yes, sir.

Senator Green. Senator Smith?

Senator Smith. Mr. Chairman, I have some questions based on

some work done by our staff.

I am going to suggest that at this point in the record we insert this memorandum by the staff entitled "Military Assistance" and then I will ask the witness some questions about this.

Senator Green. It will be inserted as part of the record.

(The document referred to is as follows:)

# STAFF MEMORANDUM No. 5-MILITARY ASSISTANCE

This memorandum is based upon a staff review of the executive branch presentation books on the mutual security program for fiscal 1957. This review has suggested lines of questioning about the military assistance program which might otherwise be overlooked.

First, attention is called to last year's report of the Foreign Relations Com-

mittee on the Mutual Security Act, in which it is stated (pp. 13-14):

"The authorization \* \* \* recommended in this bill is slightly more than the amount \* \* \* appropriated for the current year. It is, however, largely composed of items of current expense, and will result in reducing the forward programing of military assistance almost to a standby basis. The bulk of the money will go for maintenance and spare parts for equipment already supplied, for training (including training ammunition), and for a relatively modest sum to meet unforeseen contingencies. \* \* \*

"The composition of the 1956 program is the result of a searching reappraisal of the military assistance program which has been underway in the Department of Defense since the summer of 1954. This reappraisal, which is intended

to result in a global international security plan, will probably not be complete until the fall of 1955. \* \* \*

"At this juncture, however, it would seem unrealistic to expect that the military assistance program can be reduced appreciably below its present level in the immediate future. In this connection, it should be noted that the proposed 1956 program does not meet present needs; all but the most immediate and essential of those needs have been deferred to 1957 or later.

"The committee particularly calls attention to the large component of the fiscal 1956 program allocated to maintenance and spare parts \* \* \* It means that in many countries, the United States has not only supplied the original equipment but is also undertaking to maintain and repair it. \* \*

equipment but is also undertaking to maintain and repair it. \* \* \*

"The committee urges the Department of Defense, however, to take more vigorous and imaginative steps to reduce this continuing burden on the United States as much as possible through seeking to bring into being indigenous maintenance capabilities. The foreign military facilities assistance program is particularly important in this respect \* \* \* This and the offshore procurement program are two of a variety of means that should be pursued in an effort to make our allies more nearly capable of meeting their own needs for replacement of military equipment."

Second, attention is called to the statement in this year's executive branch

presentation book (vol. I, p. 15):

"A substantial portion of this program" [i. e., military assistance for fiscal 1957] "is designed to maintain the effectiveness of forces whose initial equipment was provided under the military assistance program. With certain important exceptions it is limited to maintenance, training and training ammunition, and with respect to the Far East and the Middle East, the provision of direct forces support.

"The major exception to the above-stated purpose of the fiscal year 1957 military assistance program is that of providing advanced new weapons to our

allies. \* \* \*"

It should also be noted that the new weapons program was stated by Mr. Hollister as amounting to \$530 million out of a total of \$3 billion for military assistance, or a little more than one-sixth.

It is clear from the foregoing that the committee last year anticipated to some degree the increase in the program recommended for fiscal 1957. Yet it appears that, except for new weapons, the 1957 program is similar in nature to the 1956 program. The question therefore arises as to why the proposed 1957 program should be more than twice as large as the 1956 program.

For the sake of the record, it also appears desirable to ask Defense Depart-

ment witnesses:

1. What has been the result of the "searching reappraisal" of the military

assistance program referred to in the 1955 committee report?

2. What has been accomplished, and what is planned for the future, through the foreign military facilities assistance program, the offshore procurement program, and other means, to bring into being indigenous maintenance capabilities?

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The tables on military assistance, beginning on page 18 of volume I of the presentation books, show that:

1. The total programs for fiscal years 1950-56 amount to \$19.7 billion.

2. Of this amount, as of November 30, 1955, \$13.3 billion had actually been accomplished, and \$6.4 billion was yet to be accomplished.

What is the reason for this very considerable time lag?

What steps are being taken to spead up accomplishment?

It appears from the figures that performance lags far behind appropriations. In view of this fact, why should new funds, to the extent of more than twice the 1956 program, now be appropriated?

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What specific advanced new weapons are contemplated by this program? To what extent will training activities under the military assistance program have to be increased as a result of the inclusion of advanced new weapons? Do the armed forces of the countries which will receive these weapons (particularly countries outside Western Europe) have the capability of effectively utilizing them?

Is it our policy to replace continuously the weapons we have already given to our allies as they become obsolete?

IV

The administration draft bill (beginning on line 20 of p. 21) provides for "a more equitable pricing system for transactions between the military departments and the mutual defense assistance program." What are the implications of this system in regard to MDAP reimbursements to the services? Will these reimbursements be reduced? If so, was the extent of the reduction taken into account to computing the requested authorization for fiscal 1957?

#### MILITARY ASSISTANCE PROGRAM

Senator Smith. I will read a part of this, Mr. Gray, and ask you questions as I go along.

This memorandum is based upon a staff review of the executive branch presentation books on the mutual security program for fiscal 1957. This review has suggested lines of questioning about the military assistance program which might otherwise be overlooked.

I am going to suggest that you have your staff study these questions in case we do not cover the answers now.

You can fill them in the record, because I think it is a very important matter that has been called to our attention here.

Mr. Gray. Right, sir.

Senator SMITH (reading):

First, attention is called to last year's report of the Foreign Relations Committee on the Mutual Security Act, in which it is stated—

this is our report of last year after we had heard from the executive departments.

The authorization recommended in this bill is slightly more than the amount appropriated for the current year. It is, however, largely composed of items of current expense, and will result in reducing the forward programing of military assistance almost to a standby basis. The bulk of the money will go for maintenance and spare parts for equipment already supplied, for training (including training ammunition), and for a relatively modest sum to meet unforeseen contingencies.

The composition of the 1956 program is the result of a searching reappraisal of the military assistance program which has been underway in the Department of Defense since the summer of 1954. This reappraisal, which is intended to result in a global international security plan, will probably not be complete until the fall of 1955.

You will recall this? Mr. Gray. Yes, sir.

Senator Smith (reading):

At this juncture, however, it would seem unrealistic to expect that the military assistance program can be reduced appreciably below its present level in the immediate future. In this connection, it should be noted that the proposed 1956 program does not meet present needs; all but the most immediate and essential of those needs have been deferred to 1957 or later.

That may account for the variation received from year to year, but it seems to have impressed the fact we have a level program going on from year to year.

Is that the reason for the assumption?

Mr. Gray. The level of expenditures has been generally about the same. We would hope in the next year to improve our delivery performance and I think it would not be unlikely, Senator, that in fiscal year 1957 our deliveries would be greater than in fiscal year 1956.

As far as the appropriation is concerned, however, it is true that the 1956 appropriation enabled us to proceed on a most austere basis without assistance at all to some of the countries involved.

Senator George. Good morning, Mr. Secretary.

You may proceed.

Mr. GRAY. Thank you, sir.

#### SPARE PARTS

Senator Smith. I will continue with my questioning if that is proper.

The committee particularly calls attention to the large component of the fiscal 1956 program allocated to maintenance and spare parts. It means that in many countries, the United States has not only supplied the original equipment but is also undertaking to maintain and repair it.

The rest will go in the record there but I want to call attention to the questions.

Second, attention is called to the statement in this year's executive branch presentation book:

A substantial portion of this program, military assistance for fiscal 1957, is designed to maintain the effectiveness of forces whose initial equipment was provided under the military assistance program. With certain important exceptions it is limited to maintenance, training and training ammunition, and with respect to the Far East and the Middle East, the provision of direct forces support.

The major exception to the above-stated purpose of the fiscal year 1957 military assistance program is that of providing advanced new weapons to our allies.

You have testified to that already.

Mr. GRAY. Yes, sir.

# REASONING BEHIND INCREASE IN REQUEST

Senator Smith (reading):

It should also be noted that the new weapons program was stated by Mr. Hollister as amounting to \$530 million out of a total of \$3 billion for military assistance, or a little more than one-sixth.

That seems to check in with your testimony.

It is clear from the foregoing that the committee last year anticipated to some degree the increase in the program recommended for fiscal 1957. Yet it appears that, except for new weapons, the 1957 program is similar in nature to the 1956 program. The question therefore arises as to why the proposed 1957 program should be more than twice as large as the 1956 program.

Do you care to comment on that?

Mr. Gray. Yes, sir. I think we are confronted with the problem of terminology here, Senator. I think that the language really should be why the 1957 appropriations should be twice as large as the 1956 appropriation.

Actually as I have testified, we have worldwide a continuing program of military assistance to various countries. In most of these countries even the levels of appropriations contemplated and requested for 1957 do no more than maintain equipment in the hands of forces already created, in other cases we proceed towards goals which were agreed upon as we established our program planning.

I have indicated one of the reasons for the increase in appropriations is that in the last 2 years we have expended amounts greater

than the funds appropriated in those years.

In the early days of the program, our deliveries were largely from stocks on hand in the military services, which had been generated by World War II. When the stocks were available you could have appropriations which might approximately equal expenditures.

However, we now are, for the major part of our deliveries, having

to send to our recipient allies items which must be produced.

There is, therefore, involved the question of lead time which I have

adverted to in my prepared statement.

In order to proceed in part with the new weapons program and also in order to undertake procurement for deliveries in the years ahead, we feel that the appropriations must be again stepped up and not be allowed to be less than the anticipated deliveries.

Senator Smith. That would answer the point at least, the question raised by Senator Fulbright, that this year we are stepping it up 40

percent, the military 40 percent.

Mr. Grav. Again I think we must bear in mind that I think the Senator was referring to the amount of appropriation authority requested as compared with that granted in previous years.

Actually, as far as the general level of the military aid program

is concerned, this does not result in that kind of buildup.

# RESULT OF THE STUDIES MADE BY MAAG

Senator Smith. Now this statement goes on to ask these questions: What has been the result of the "searching reappraisal" of the military assistance program referred to in the 1955 committee report?

That is the first question asked there.

Mr. Gray. Yes, sir. My predecessor, Mr. Struve Hensel, undertook to have the MAAG's throughout the world develop and forward to Washington the total needs of the recipient countries under the force goals established for them.

They approached this on what we referred to as a deficiency basis, and we therefore got worldwide from the military assistance groups their appraisal of requirements under military aid programs which

should be met in the various countries.

The results of this worldwide survey indicated that in the opinion of the MAAGS, we needed funds to meet deficiencies which would be far in excess in any one year of any reasonable expectation of an

appropriation by the Congress.

As a part of Mr. Hensel's effort to get military aid programs on a more realistic basis, there was instituted under his direction a program of asking the MAAGS to make time-phased requirement reports, as we refer to them. This is an effort to relate their requests for deliveries to the ability of the recipient country to absorb them, to make certain that we do not deliver items which they are not ready to receive.

And I believe that there has been very considerable improvement in the realism of our delivery schedules to the countries as a result of these various measures instituted by Mr. Hensel.

This is a gratuitous observation, but I can assure you an entirely honest one. There have been improvements brought about in the totality of the program by these measures. We think we are continuing to make improvements, but as I indicated to Senator Green with respect to administration of the direct forces support aspect of the program, we cannot claim any measure of perfection in the administration of this very complex and difficult program.

I think we are improving though, Senator.

Senator Smith. Mr. Chairman, I have just been summoned to another committee where they are taking action on a matter. I am going to request therefore that the balance of this staff report, as I requested earlier, be in the record and that Mr. Gray and his group get the answers in the records to these questions. I think they are important to give us the complete picture of your operations.

Mr. Gray. We will be very pleased to do that, Senator. Senator Smith. I regret that I have to leave the meeting now. Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Smith. For information, see p. 1056.

# MUTUAL WEAPONS DEVELOPMENT PROGRAM

Senator Sparkman. Mr. Gray, I will not detain you long, but I want to go back to this question of buildup, and I followed your statement very well.

As has been pointed out, about the only new program is the ad-

vanced weapons.

Mr. Gray. Yes, with the exception-

Senator Sparkman. Of appreciable amounts.

Mr. Gray. Right, sir.

Senator Sparkman. And that is approximately half a billion dollars?

Mr. Gray. Half a billion.

Senator Sparkman. Now is that more or less a continuation of the special weapons program that we first provided I believe 2 years ago! Mr. Gray. No, sir. I think you are referring to the mutual weapons development program.

Senator Sparkman. I do not remember the name. It was generally referred to then as special weapons.

Mr. Gray. It is not unrelated to it but it is not a part of it, Senator. The mutual weapons development program is one under which we supply financial support to the various countries who are in the program to match efforts on their part to develop items of military value which their own scientists and production facilities are capable of producing. We think that there are many important byproducts of this program, one of which is to help the free world in its necessary program of increasing the number of trained scientists and engineers.

This is not the primary purpose but it is an important byproduct when we think of the growing capacity of the Soviet Union to train

and produce the scientist and technician.

However, there are very important and promising projects in the mutual weapons development program which will not only add defensive military strength through the development of these new weapons, but which also may in the long run help relieve us of some of the burden of financing military aid, because as these countries develop a capacity to create new weapons and to produce them, then production is likely to take place in those countries rather than in our

own country.

We feel that the mutual weapons development program is a highly important part of the whole effort, but it is not a part of our new decision to supply advanced weapons of our own design and manufacture to our allies.

Senator Sparkman. I think one who has followed this program year by year easily understands what you have said here about no buildup, but I believe you likewise readily admit that to the people over the country, when a request comes in for a sharply stepped-up amount of appropriations or authorization, it certainly appears that it is stepping up our program; don't you?

Mr. GRAY. I cannot disagree, Senator, with the observation that \$3

billion is a lot more money than \$1 billion.

Senator Sparkman. And of course that is the way the casual reader looks at this thing, so I simply mention that as an indication of the problem that I think the program is up against.

I think we all understand quite well the fact that the pipeline has

been drained and now must be refilled.

But again that is not an easy thing to expect the average citizen on the street, who must read as he runs, to understand.

Mr. Gray. Yes, sir.

## CARRYOVER OF FUNDS

Senator Sparkman. I wonder is you recall statements recently when this program was first announced by Senator Byrd and by others that what it amounted to was simply a rebuilding or accumulating c. o. d.'s that we heard a good deal about back in 1953 and 1954.

Did you see the press reports on that at the time?

Mr. Gray. I am sure I did, sir.

Senator Sparkman. I wonder if you have ever read the testimony that was given before this committee and the other congressional committees, back in 1953 and to a lesser degree in 1954, in which the carry-over of funds from year to year was referred to. The country was sold on the idea that it simply amounted to a lot of c. o. d.'s that were carried over from one administration for the other one to pay off?

Now aren't we right up against that again?

Mr. Grav. Senator, I do not think we are. I am not sure I under-

stand fully.

Senator Sparkman. Let me say I am sure the criticism is not good now and it was not good in 1953, but if you will go back and read the hearings before this committee, you will see that high administration officials who appeared before us were constantly jumping on that idea. They were completely overlooking the fact that there is a time-lag as you so well point out, maybe as much as 2 years, in delivering the weapons for which appropriations must be requested now.

Mr. Gray. Yes, sir.

In answer to the specific question you have put, I have not read the

testimony of 1953.

Senator Sparkman. If you would read it, I think you would under stand part of the problem that is confronting this program right now over the country.

Mr. Gray. Yes, sir; I shall make a point to do so.

# FOREIGN ECONOMIC POLICY OF THE UNITED STATES

Senator Sparkman. In the colloquy between you and Senator Fulbright, there was something said about meeting the new economic challenge on the part of Russia. You made the statement, with which I fully agree, that we cannot afford simply to match what Russia does with regard to one particular project or one particular country or try to go a little bit beyond what she does. I also believe we do need to have a definite economic policy of our own which will accomplish the most good first for our own country and second, for the country we are dealing with.

Mr. Gray. I agree fully with that, Senator.

You may recall that I once officially addressed myself to this question in 1950, at which time I served as a special assistant to Mr. Truman, and, with a staff, prepared a report on foreign economic policy.

Senator Sparkman. I remember that report that was made.

Mr. Gray. There have been many studies in the meantime of our foreign economic policy. Of course now there is considerable attention being given to a comprehensive study of the entire foreign aid program which would be economic, military, and so forth. I think it is well periodically to review our concepts, and I am sure that those of us who have responsibility for administering programs already embarked upon welcome a review of the concepts and of the administration of these programs.

Back now to your specific question, I do agree that the new Soviet tactic is the one which we must view most seriously and be prepared to

deal with.

Senator Sparkman. But deal with it with our own program, with-

out trying to match or overdo what they propose to do.

Mr. Gray. As I attempted to say to Senator Fulbright, we should have a sound program which reflects the truth of the matter, and that is that among all the countries of the world, we may be the only one whose foreign policy is without ulterior motive, but designed only to help sustain and nourish freedom throughout the world.

We have no aggressive intentions, and this was the thing I said so badly to Senator Fulbright. This is the moral core of what we should try to do, and it should not be in reaction to what other coun-

tries do.

Senator Sparkman. I certainly think that is correct and I think perhaps the feeling as to that being the correct policy perhaps may explain the concern of some people that this program appears to be topheavy militarily—that it is not an acceptance of the new challenge in the economic field.

# THE NATO COUNCIL

As a matter of fact, a good many of us feel that one of the troubles that NATO is suffering from now, and apparently effort is being made to rescue it, is that it has been allowed to become militarily topheavy without the proper and adequate political and economic underpinning.

Mr. Gray. As far as NATO is concerned, Senator Sparkman, I just

returned Monday.

Senator Sparkman. Did you attend the Council?

Mr. Gray. I attended the recent meeting, yes, sir; with the Secretary of State, as his senior Defense Department adviser. He has made a public statement about that meeting which I am sure you

Senator Sparkman. He made it last night, I believe.

Mr. Gray. Yes.

Senator Sparkman. I did not get to hear him and I have not yet read it in the paper. I did hear some commentator reviewing it

briefly.

Mr. Gray. There was a recognition, I think, at the meeting among the Ministers present that the military framework must be preserved, that there is no reason to suppose that NATO, insofar as its military

aspects are concerned, can become relaxed.

At the same time, as you have indicated, there has been a growing recognition that NATO perhaps had a larger nonmilitary role to play, and as you know, three Ministers were directed to review the scope and role of NATO in the nonmilitary fields and to report at the earliest practical moment, and I think Mr. Dulles has stated publicly that this may have been a turning point in NATO. Certainly it is clear to all of us that the survival of NATO cannot be purely as a military organization, but it must retain the values of its military shield against aggression.

## LONG-RANGE ECONOMIC CONSIDERATIONS

Senator Sparkman. Now in our hearing yesterday afternoon in executive session we had a considerable discussion of the problem

confronting Turkey.

I think that is an example of the situation that Senator Fulbright may have had in mind in discussing the imposing, shall I say, or the undertaking of a heavy military burden to the extent that the economic situation becomes one virtually impossible to carry.

In other words, the fear of the military burden that a country undertakes will hamper or will impair its economic strength to the point

that a dangerous situation may develop.

Mr. Gray. I should like to speak to that point without adverting

to a particular country.

Senator Sparkman. Yes; so would I. I simply used Turkey as an example because I think we have seen reports in the press recently to that effect. And you mentioned in your paper several countries that are not able to carry the full burden.

Mr. Gray. That is correct, and in some cases it is true that we feel it necessary deliberately to help a country maintain defensive strength which it could not on its own support because of the necessity to have

that defensive strength as a deterrent to aggression.

Some of the countries that would be involved in that category are obvious, and indeed I mentioned some in my prepared statement.

I think it would be fair to say, Senator Sparkman, that some of our planning in the past—and may I hasten to say that this is not intended in anyway as a criticism of what has been done in the past—but I think it is fair to say that there have been occasions when we has not taken fully into account some of the long-range economic considerations of our programs.

I can say to you that this is a matter with which those responsible in this administration are now deeply concerned, and I hope that in our future planning these matters will be fully taken into account.

We are seeking to do so at this time. Military assistance has created

problems.

Some of these problems we must simply accept in the present world

context.

If there comes a time that we can hope reasonably there can be no aggression, certainly I would be among the first to say that unnecessary military strength should be dissipated. I do not believe we have reached that point in history as of today.

## THE POINT 4 PROGRAM

Senator Sparkman. Just this other one point, Mr. Gray. I realize that your presentation is essentially the military side.

Mr. Gray. Yes, sir.

Senator Sparkman. It seems to me that one of the finest programs ever devised, even though it is not very spectacular or glamorous, was the point 4 program. To many of us it appears that that program has not been pushed steadily ahead as it should have been.

And, again, I do not mean by that that it should ever have assumed

tremendous importance.

I know it must grow gradually because of the various problems involved, particularly the procurement of technicians and skilled peo-

ple to do the work.

But it seems to me that in any economic program the very basis ought to be that it was envisioned in the point 4 program. And I think often it can accomplish a great deal more fundamental good than these so-called impact programs spending tremendous sums.

Mr. Gray. I do not disagree with your observation, Senator. I would remind you that the administration of technical assistance is

entirely beyond any of my responsibilities.

Senator Sparkman. I acknowledged that in the beginning of my statement.

Thank you very much.

The CHAIRMAN. Any further questions?

Thank you very much, Mr. Gray.

Now I must beg your pardon for not being here promptly myself this morning, but I am sure you were in very good hands, even in better hands with Senator Green.

If there is nothing else this morning we will recess until 2:30 in the committee room in executive session when we will hear from the executive branch on the program for Latin America.

Mr. GRAY. Yes, sir. May I be permitted a personal observation,

Mr. Chairman?

The CHAIRMAN. Yes, thank you. We will be glad to have it.

Mr. Gray. Since I have been seated at this table I have been handed a note which indicates that you have indicated that you will not again be a candidate for election to the Senate and that you have accepted an appointment from President Eisenhower as Special Ambassador to NATO.

I should like, with your indulgence, sir, as a citizen primarily, as a southerner and as one of millions of Americans who have appreci-

ated your services in this body, to express my regret that this condition is as it is. Also, sir, if I may, I wish you success and happiness in your new position, too.

The CHAIRMAN. Thank you very much, Mr. Gray.

I do not think it is quite fair to say that I have accepted any posi-I think it would be better to say that I have indicated to the President that I would not shirk any request that he might make.

I can assure you, sir, that I have enjoyed for 34 years this coming November a very happy life in the Senate dealing with the current problems with which we have to deal.

But conditions are such I must decline to stand for reelection, and the President has very graciously said that I might be of some service, and I have indicated to him at least that I would not shirk any responsibility or duty that he thought that I could inadequately perform if called on to do so.

Thank you very much for your very gracious remarks and thank

you for your appearance here today.

Mr. GRAY. Thave been happy to be here, sir.

(Whereupon, at 12:05 p. m., the committee recessed until 2:30 p. m. of the same day.)

# MUTUAL SECURITY ACT OF 1956

# WEDNESDAY, MAY 9, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS, Washington, D. C.

The committee met, pursuant to recess, at 2:40 p. m., in the committee room, United States Capitol Building, Senator Walter F. George (chairman) presiding.
Present: Senators George, Green, Fulbright, Mansfield, Wiley, and

Smith (New Jersey).

The CHARMAN. If we might proceed, Secretary Holland. We are considering the Latin American countries this afternoon.

# STATEMENT OF HENRY F. HOLLAND, ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Mr. HOLLAND. Mr. Chairman, I have a written statement and, with your leave, I would like to have it included in the record, and then I would like your permission to summarize it.

The CHARMAN. You may put your entire statement in the record at this point, and then you may proceed as you wish, Mr. Secretary. Mr. Holland. Thank you, Mr. Chairman.

(Mr. Holland's prepared statement is as follows:)

STATEMENT BY HENRY F. HOLLAND, ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE

I am pleased to have this opportunity to appear before the Foreign Relations Committee to support the proposed mutual security program for Latin America for fiscal year 1957.

The program we are proposing for this area during the fiscal year 1957 totals \$96,396,000 and includes development assistance, bilateral technical cooperation, the United States contribution to the technical cooperation program of the Organization of American States, and the mutual defense assistance program.

With the approval of the committee, I will now discuss the general nature of each of the four parts of the program and the reasons for Department of State

support.

## DEVELOPMENT ASSISTANCE

Twenty seven million dollars is requested for the fiscal year 1957.

A basic objective of United States policy in the economic field is to make as effective a contribution as is possible to the efforts of individual Latin American States to maintain a stable, healthy, national economy. The security and wellbeing of the people of the United States demand that we be surrounded in this hemisphere by strong prosperous neighbors. It is, therefore, in our interest to offer constructive assistance to the efforts of our sister republics. Humanitarian and philanthropic motives are thus not the only justification for this program, although they do play an important part.

In general, Latin Americans do not want grant assistance from the United States except in cases of temporary emergency which they cannot meet with their own resources. They are a proud people and have a sturdy spirit of self-reliance. They seek cooperation from us in the economic field, cooperation that is of a long-term nature that they can count upon to continue uninterruptedly and without fluctuation. They want generous trading policies, protection of the exising levels of inter-American trade, and an opportunity to see those levels expanded. They want technical knowledge.

The United States is Latin America's principal trading partner, and as a region it is ours. Our trading policies mean more to Latin American progress than any other economic policy or program that the United States can adopt. Each year \$3.5 billion of cash and credit move from the United States into Latin America in payment for their exports to us. The principal, basic, economic help that they want from the United States is protection of this great inter-American commerce, protection against the understandable efforts of our own domestic interested sectors who would cut off or reduce Latin America's access to our markets by limiting quotas, increased tariffs, or other restrictive devices. It is in our own selfish interest to follow a liberal trading policy, for the dollars that Latin America earns by selling in our markets come right back to us in payment for our own exports to them. We should do our utmost to proced existing levels of inter-American trade, and we should make a strong, sustained, and imaginative effort to increase that trade.

While it is dangerous to generalize about 20 nations so widely different among themselves, we feel they have demonstrated a realistic understanding of how the United States can best help them help themselves. Many of these nations have abundant natural resources and other forms of development potential, which require only pump priming in the form of equipment and expanded power and transportation facilities to become important dollar earning or dollar saving assets. Wherever feasible, we have urged Latin American countries to finance this pump priming through the encouragement of an inflow of private American capital, and to a gratifying extent our efforts in this direction have been fruitful. As you know, still further measures to enhance the incentives for private United States investors have been recommended. Where private capital has not been available, as is often the case for the larger transportation and utility projects, we have stepped in with financing from public source, particularly the Export-Import Bank. The bank has also been active in promoting operations of lesser magnitude through extensive use of the exporter credit technique.

In view of the great potential wealth of the Latin American area, and the fact that most countries in the hemisphere cannot only support their present populations but also can support a rapid rate of growth, it has not been necessary to extend development assistance except in cases of temporary crises which the other governments cannot meet with their own resources. Such is the nature of the help we are extending to Bolivia, Guatemala, and Haiti at the present time and are proposing to continue in fiscal year 1957 in the case of Bolivia and Guatemala.

Our development assistance program for fiscal year 1957 has been reduced to \$27 million. It is our hope that the temporary emergency difficulties in Bolivia and Guatemala which gave rise to the need for this aid are diminishing and that the problems needing solution will soon be met. The need for aid in these two countries can be sumarized as follows:

#### Bolivia

The United States started a program of emergency economic aid to Bolivia in the fall of 1953. During fiscal 1954, \$11.4 million was so expended. In fiscal 1955 the amount was \$20.1 million, and in fiscal 1956 \$20 million has been so allocated. The program has averted possible starvation and economic collapse in Bolivia, and is assisting that country in a plan for economic diversification and expanded agricultural production. The objective is the establishment of a stable, self-supporting Bolivian economy. Results to date have been encouraging, but further efforts will be required before the objective is achieved.

#### Guatemala

In 1954, the Guatemalan liberation movement drove out a Communistdominated regime and undertook the arduous task of building a sound modern economy. The new government inherited a serious short-term emergency compounded of a looted national treasury, an accumulated internal debt of al-

most \$50 million, a stagnant economy, and severe unemployment.

The United States Government provided emergency development assistance of \$4.8 million in fiscal year 1955 and \$15 million in fiscal year 1956 to assist Guatemala to its feet. Our aid has permitted Guatemala to proceed with an agreed public works program which, besides relieving the immediate unemployment emergency, is now producing visible progress toward solution of some of Guatemala's fundamental economic problems. Outstanding among these is the construction and improvement of highways, the lack of which is one of the country's most serious obstacles to economic progress. Other important fields in which significant advances are being made with United States help are rural development and health and sanitation. The impetus generated by our cooperative economic development contributions is expected to carry Guatemala through the initial critical stages of its recovery and reconstruction to a level of activity at which the economy will not only be self-sustaining, but will show a steady advance toward the goals to which the Guatemalan people legitimately aspire.

Before closing my remarks on development assistance I might add that, as you know, our emergency development assistance programs have been supplemented in many countries by the surplus agricultural disposal program which has enabled us to meet food shortages due to natural disaster in a number of

Latin American countries.

## BILATERAL TECHNICAL COOPERATION

Thirty-two million three hundred and fifty thousand dollars is requested for

the fiscal year 1957.

The Latin Americans, as I have said above, recognize the importance of technical knowledge and experience. They know that no amount of capital, no amount of equipment, no amount of raw materials, will replace the human factor or sustain a strong, expanding economy for long without trained local personnel. The answer is not for us to export technicians. We could not supply the number needed or that could be gainfully employed in this hemisphere because the demand is too heavy. In any case, a sound stable and expanding economy must be based on the people of the country—their own technicians, their own investors, and their own enterprise. Consequently, we attach great importance in Latin America to sharing our combined technical knowledge and spreading it, either bilaterally or multilaterally.

Bilateral programs of technical assistance are undertaken at the request of American governments which ask our cooperation in specific programs of technical assistance and offer to pay their fair share of the cost. We believe that these programs have made a contribution to economic development that fully justifies their cost to our Government in terms of funds and manpower. This belief is confirmed by the interest that a number of the other governments have shown in our continuing and diversifying our work with them in these fields. Therefore, at the Economic Conference of 1954 in Rio de Janeiro we agreed

to strengthen United States participation in programs of this nature.

The request for \$32,350,000 compares with an operational level of \$28,406,000 in fiscal year 1956. I believe that this increase is desirable. An appropriation of this amount will permit us to participate in programs which meet the standards that we have established for our participation. The benefits to the United States in terms of economic progress in the hemisphere, in terms of increased trade and in terms of the spirit of partnership that these programs produce fully justify the cost to our Government.

## TECHNICAL COOPERATION PROGRAM OF THE OAS

I fully support the request for \$1.5 million as our contribution for the 1957 technical cooperation program of the Organization of American States. We propose again to limit our pledge to 70 percent of the total contributed by all participating governments. Our offer last year, which was in the same amount as we are now asking, was not fully used. I am sure, however, that the advantages to be derived from this program are becoming as clear to our sister republics as to us. I therefore feel it important that the appropriation remain at this figure. It may prove an incentive to Latin American countries to raise their contributions and will serve as an example of the importance we attach to the program.

The purpose of the program is to train, at centers in Latin America, specialists from all the American Republics, who are then expected to return to their own countries and put to use the training they have received as well as impart it to others in their homeland. The program consists entirely of regional projects for the benefit of all. There are seven such projects now operating and there is no duplication with the other programs of the United Nations or our own bilateral efforts. On the contrary, they complement each other.

Apart from the economic benefits to be derived from this program, there is an important byproduct. In this multilateral program, the 21 American Republics are finding still another opportunity for all of them to cooperate; it is accustoming the peoples of the Americas to work together for common goals; it breeds understanding and unity of purpose. Consequently, I consider this effort of all 21 American Republics outstanding and it has had our fullest support since its inception. It is considered an important aspect of United States policy toward Latin America.

#### MUTUAL DEFENSE ASSISTANCE PROGRAM

The budget request for the mutual defense assistance program for Latin America for fiscal year 1957 is \$35.5 million.

We have military assistance agreements with 12 of the Latin American countries: Brazil, Chile, Colombia, Cuba, the Dominican Republic, Ecuador, Gautemala, Haiti, Honduras, Nicaragua, Peru, and Uruguay. Through the mutual defense assistance program we are helping those 12 countries to develop units which will be used to perform missions important to the defense of the hemisphere, in case of war or other grave emergency. The program also promotes closer military cooperation between the United States and those countries and contributes to the mutually beneficial ties between them and ourselves.

Our military-assistance agreements with Latin American countries come within the framework of the Inter-American Treaty of Reciprocal Assistance and promote the objective, enunciated in a resolution of the Fourth Meeting of Consultation of Ministers of Foreign Affairs, of orienting the military preparations of the American Republics toward the common defense of the hemisphere.

The Department of State supports the budget request for the mutual defense

assistance program for Latin America.

I should also like to refer briefly to an amendment to section 545 (h) which

has been requested by the Fresident.

Section 545 (h) is the provision governing the determination of the price at which military equipment is sold or granted to friendly foreign governments. Under this provision, equipment is priced at its acquisition or replacement cost as determined by the Secretary of Defense, unless the equipment is excess to United States military needs. This provision makes no allowance for depreciation of the equipment as a result of its use by our Armed Forces or because of its age. As a result of the present pricing method, our Latin American allies find it difficult to purchase military equipment in the United States. Some have turned to other sources of supply. Equipment from other sources has brought with it training, logistical and maintenance problems which seriously hamper Latin American military efficiency.

The proposed amendment to section 545 (h) would apply to sales to friendly foreign governments standards of pricing similar to those used in transfers among our own armed services. It would make possible a more equitable pricing of nonexcess equipment, depending on age and condition of the equipment, and should improve the possibilities that the Latin American governments will purchase standard United States equipment.

I believe the proposed amendment is a desirable improvement in our military equipment sales program and I commend it to you for favorable consideration.

Mr. Holland. With me here are Mr. McGuire, from Defense, and Mr. Atwood, from ICA.

The CHAIRMAN. Yes.

Mr. Holland. And I believe that perhaps the most usable way of getting our statements before you, from your point of view, would be for each of us to make such preliminary statement as seems appropriate, and then for us to offer the group for you to question, on  $\mathbf{whatever}$ 

The CHAIRMAN. That is, you prefer to make the statement before you are asked questions.

Mr. HOLLAND. If that is acceptable to the committee.

The CHAIRMAN. That is quite agreeable, and I think that will expedite matters.

## GENERAL ECONOMIC POLICY

Mr. HOLLAND. Fine.

I would like, if I may, to talk just a moment about our general economic policies in this hemisphere in order that I can place the mutual security program against a somewhat wider background, so that the committee will have a feeling, perhaps, of the relationship of our mutual security program in this hemisphere to other features of

our economic policies.

On other occasions when I have had the pleasure of being with this committee, I have said that the objective of the foreign policy of the United States in this hemisphere in the economic field is a rather simple one: That it is to make an effective, constructive contribution to the efforts of the other countries, their governments and peoples, to establish in each country of this hemisphere the strongest and most sturdy economy that conditions in that country will permit.

I believe, and I have said this with considerable pride, that this policy is bipartisan in the finest sense of that word; that it is a policy that our Government, under whichever of our two great parties are

operating it at the time, has followed for a number of years.

## UNITED STATES CONTRIBUTION IN THE FIELD OF TRADE

Now, we feel that the Latin Americans largely agree with us on the means by which we can make the most constructive contribution to their economic progress.

That contribution, Mr. Chairman, I think, falls in three fields, and

I will just say a word, if I may, about each.

First, our contribution in the field of trade.

Second, our contribution in the field of finance, including in that private investment and public loans.

And, third, our contribution in the field of technical assistance, the

subject that we are here to discuss today.

We feel that of these three, the one which is clearly the most important from the point of view of Latin America is trade, because by that channel Latin America receives from the United States each year approximately \$31/2 billion. That is an inflow of dollars into their economies which, of course, can be converted into capital goods, goods for consumption and all of the other uses of dollars.

And it is in our interest and in their interest to do everything that we can as resourceful, practical people, to protect the existing levels of that flow of dollars, \$3½ billion every year flowing from the United States to Latin America; and then, by great resourcefulness, to try to increase the volume of that huge inter-American trade.

# UNITED STATES CONTRIBUTIONS IN THE FIELD OF FINANCE

In the field of finance; our contributions afford them developmental capital through other channels, and I have mentioned private investment and Government loans. We feel that it is quite obvious that the attraction of private investors lies with the Latin American governments and people, although the United States Government, both the executive branch and the Congress, have, I believe, been rather resourceful in developing means to encourage our investors to go to the Latin American countries, in those areas where they are welcome and where their contribution to development is readily received.

I have been very interested to read that of the total direct investment of United States investors abroad, about \$6½ billion, or some 37 percent of all our investments abroad are in Latin America. About 60 percent——

Senator Wiley. That is private investment, I take it.

Mr. Holland. Correct.

About 60 percent of all the investments that our private investors make abroad each year are made in Latin America. It is our desire to maintain that flow of private investment and, where possible, increase it, because clearly it is of benefit to us as well as to them.

Supplementing this flow of capital by private investment, we have the lending program of the Export-Import Bank, and I believe that the policies of that bank, being carried out under legislation enacted by this Congress, and with the assistance of the executive branch of

the Government, are sound and very generous.

We have offered to Latin America that through the Export-Import Bank the United States Government will seek to satisfy every application for a sound loan for a wholesome development project where the capital is not reasonably forthcoming from private investors or from the International Bank.

That does not mean that the Export-Import Bank will not make a loan unless it has been refused by the International Bank. It simply means that in the event that there is a sound project which cannot find capital from those other two sources, then we will undertake to backstop the program or the development of these countries by assuring that that project will be financed through the Export-Import Bank, although we hope that many others besides those will likewise be financed there.

That policy is being implemented in a way that gives us encourage-

ment, but which I hope will be further expanded.

Mr. Chairman, during the 12 months prior to the announcement of that policy, the Export-Import Bank authorized new credits in Latin America of \$52 million. During the 12 months following the announcement of that policy, the Export-Import Bank authorized new credits in Latin America of \$284 million, or a 500 percent increase over the preceding year.

Despite that increase, Mr. Chairman, we feel that the services of the bank can be utilized more constructively and to a better end than

is presently the case.

The funds available in the bank for use in Latin America substantially exceed the aggregate of all applications pending before it from Latin America, and it is our hope that, as the Latin American governments and their private businessmen become aware of the generosity of the policy of the bank, and its readiness to be helpful, they will make greater use of that fine institution.

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UNITED STATES CONTRIBUTION IN THE FIELD OF TECHNICAL ASSISTANCE

Now, that brings me, Mr. Chairman, to the third major field of United States participation in the development of our sister Republics, and that is the field of technical assistance that we are here to discuss.

We feel very strongly that no enterprise will be a success, regardless of the amount of capital that it has, regardless of the equipment or raw materials available to it, unless in that enterprise or in that community there is the technical knowledge and experience needed to make it a success.

Now, the United States Government and people cannot meet that need by exporting technicians, for two reasons: First, we don't have that many technicians; and second, when we think of the development of these countries, we think in terms of their people, their private enterprise, their businessmen, their investors, their technicians.

In other words, the stability and progress and prosperity of any Latin American country should largely be rooted in their own people.

But through the programs of technical assistance that we are here to discuss today, the United States can make, and I believe is making, a very wholesome, lasting contribution to share with them our accumulated technical knowledge and experience, and to spread their accumulated technical knowledge and experience widely among their countries.

Our standards for the programs of technical assistance are quite clear, I believe, understandable and simple. From a policy aspect, which is that which I will discuss with you, it is simply that where one of the other governments has a project in the technical field, whether it be public health, better housing, better irrigation, better construction of roads, any of the myriad of technical fields in which they are interested, where the other government has a project in which it would welcome and requests our assistance, we stand ready to participate at any time, provided that the other government contributes to that project its own fair share of the cost.

I think that on the whole, these projects have operated exceedingly well in his hemisphere. It has been my privilege, and that of some of you gentlemen, to see some of these projects in actual operation in the field, and I hope that you will share my conviction that, on the whole, they have made an excellent contribution and they are well

administered.

At the Rio Economic Conference, we told Latin America that we would stand ready to strengthen and diversify our participation in these bilateral programs, always participating in those projects and programs where we are requested to participate, and under the terms that I have indicated.

The appropriation submitted to you here today, the budget submitted to you here today, contemplates an increase in our bilateral participation from about \$28 million to \$32 million-plus, a rather modest increase, but an increase that is dictated by the desires and interests of the Latin American countries. That marks the extent to which they would like for us to increase our participation in programs of this character.

## MULTILATERAL PROGRAMS

The budget presented to you also includes a million and a half dollars to cover our participation in the multilateral program of the OAS. Small as that is, it deserves, I believe, very special mention.

The Organization of American States, which is, I believe, the most advanced, best organized, most developed, and most successful regional organization in the world today, conducts, as you know, activities in political, social, cultural, and economic fields.

It conducts multilateral technical assistance programs which do not overlap or infringe upon the bilateral programs to which I have

referred.

These OAS programs have for their purpose the training in centers around the hemisphere of technicians who can then go back to their own countries and teach their own people what they learned in these multilateral centers.

There are some seven of them in operation at this time, and they are very helpful, not only because of the function that they perform and that I have referred to, but also because through these multilateral programs, we have another opportunity to bring about cooperation between all the members of this American family rather than bilateral cooperation between the United States and those countries.

Again, the appropriation that we seek, the budget that we present, is our concept of the amount which, if contributed by the United States, will find a receptive response from the other countries.

We seek, where we can, to encourage increases in these multilateral programs.

## DEVELOPMENT ASSISTANCE

Now, that brings me to that phase of the budget which is referred to as development assistance or grant aid.

It is with satisfaction that we report to the Congress that the governments and peoples of Latin America prefer not to receive grant aid from the United States, save in conditions of temporary emergency that they cannot handle with their own available resources.

That reflects very favorably on the sturdiness and self-reliance of those peoples and governments, and is entirely consistent with their

tradition.

We propose two grant-aid programs in this hemisphere, designed

to meet temporary emergencies.

One is in Guatemala, and relates to the terrible problems, the solution of those problems that the liberation government found when it eliminated the Communist-penetrated regime from that country.

The other is in Bolivia, where we are cooperating with the Government and people there to avoid what could have developed into nationwide starvation conditions brought about principally by the worldwide drop in the price of tin.

Last year we had three programs: The one in Haiti arose from the need to reconstruct substantial portions of the economy of that country that was devastated by the hurricane 2 years ago.

The amount of the appropriation sought for development assist-

ance for fiscal year 1957 is \$27 million.

# MILITARY AID TO LATIN AMERICA

The last phase of this program, which I should mention, but which I shall mention only briefly, because of the presence here of Mr.

McGuire, is the military phase.

As you know, basing our policies on the Rio Treaty, we have developed military cooperation agreements with 12 of the Latin American countries. All of these agreements have for their objective the setting up of coordinated units for hemispheric defense, so that in the event of hostilities, each nation would not be undertaking single-handed the defense of its territory, but rather, that we would all work together to defend this hemisphere as a common homeland.

This is a rather modest program. Its amount contemplated for the current year is \$35.5 million and, in our judgment, although we are not military experts, of course, is a reasonable one for the objectives

that we seek.

I have nothing further to say in my direct statement, Mr. Chairman. With your permission, I will ask that the other two gentlemen who are with me make their statements, and that we then offer ourselves for questioning.

Thank you, sir.

The CHAIRMAN. Yes, sir. All right, you may do so, Mr. Secretary. Who will you call on first?

Mr. Holland. Mr. Atwood, if I may.

The CHAIRMAN. Mr. Atwood, we would be glad to hear you.

# STATEMENT OF ROLLIN S. ATWOOD, REGIONAL DIRECTOR, OFFICE OF LATIN AMERICAN OPERATIONS, ICA

Mr. Atwoop. Mr. Chairman, I have a statement which I would like, with your permission, to submit, and then I would like to briefly summarize my statement.

The CHAIRMAN. Yes, sir. You hand your statement to the reporter, and it will be put in the record at this point in full, and then

you may summarize.

Mr. Атwood. Thank you, sir.

(Mr. Atwood's prepared statement is as follows:)

STATEMENT BY ROLLIN S. ATWOOD, DIRECTOR, OFFICE OF LATIN AMERICAN OPERA-TIONS, INTERNATIONAL COOPERATION ADMINISTRATION, BEFORE THE SENATE COM-MITTEE ON FOREIGN RELATIONS

It is indeed a pleasure to have the opportunity to appear before the Foreign Relations Committee in support of the proposed mutual security program in Latin America for fiscal year 1957.

## THE PROGRAM FOR FISCAL YEAR 1957

For fiscal year 1957 we are proposing a program which has been developed through joint action of the Government of the United States and the governments of the countries of Latin America. It has been coordinated in terms of the foreign policy objectives of the United States and is aimed at the achievement of common goals essential to the economic, social, political and military security of this hemisphere and the free world.

The mutual security program is in four parts: (1) bilateral technical cooperation, (2) development assistance, (3) military assistance, and (4) the United States contribution to the technical cooperation program of the Organization of American States. I shall confine my remarks to the bilateral technical

cooperation request for the coming year for \$32,350,000 compared with an operational level of \$28,406,000 in fiscal year 1956, and the development assistance program to help meet temporary economic emergencies for which we are requesting \$27 million for fiscal year 1957, almost 30 percent less than this year's \$39 million.

Others are here to discuss the military assistance program for which \$35,500,000 is requested and the United States contribution to the technical cooperation program of the Organization of American States for which the request is \$1,500,000.

#### TECHNICAL COOPERATION IN LATIN AMERICA

The provision by the United States of technical assistance, which constitutes the United States Government's share in the overall economic and social development program in Latin America, started in 1942. Today's program, as it has been from the beginning, is a joint program based on the development plans of each country. The United States Government's contribution in technical assistance is determined on the basis of where and to what extent this country can cooperate effectively within its criteria and within its means. The United States does not provide technical assistance to all projects making up a country development program. Neither does it provide, except in a few cases, the major share in any individual project. We participate by supplying technical assistance in those portions of the program where technical demonstrations may be expected to produce effective results in terms of the other country's ability to make fuller use of its human and natural resources.

The total development program in Latin America is of significant proportions. Production is increasing at a rate comparable with the highest in the world. Trade with the United States is healthy and has approached a total of \$7 billion during the last several years. Investments, private and public, local and foreign, are expanding. Loans from the Export-Import Bank and from the International Bank for Reconstruction and Development are definitely on the increase. Nearly \$100 million in local currency generated by the sale of United States agricultural surpluses will be available in the form of long-term loans to supplement private and public investment for economic development and increased trade.

The interaction of these forces has culminated in an intense, deeply rooted determination among the peoples of Latin America to achieve for themselves a more secure and abundant existence above the minimum which prevails in many parts of the region. In their efforts to improve their standard of living and satisfy the aspirations of their rapidly multiplying populations the Latin Americans have already set a remarkable record of accomplishment over the last 15 years.

Latin America's economic growth however has been uneven, both geographically and historically. Certain areas and certain countries have made tremendous strides while others have made only modest beginnings. Growth has been rapid in years of favorable terms of trade and has declined or remained static in less favorable periods. The rewards of economic development have not been evenly distributed. Large areas and millions of persons have been scarcely touched by the tremendous developments that have taken place.

## OBSTACLES TO ECONOMIC DEVELOPMENT

Among the basic problems facing Latin America are the necessity of increasing individual productivity, particularly in food production, and breaking down the rigidity of the highly nationalistic economic systems prevailing in many countries of the area. In addition, despite her large and rapidly growing population and the quantity and variety of her material resources, Latin America's progress is seriously hampered by such chronic weaknesses as lack of diversification of crop and product, low per capita incomes, low literacy rates, poor health and sanitation facilities, and low rates of saving and domestic capital formation. All of these characterize in varying degree the economies of the area. Moreover the great geographic dispersion of the population and the lack of transportation and power facilities are problems retarding economic growth which must be solved before more stable progress can be achieved.

# OBJECTIVES OF TECHNICAL COOPERATION IN LATIN AMERICA

Our technical cooperation in Latin America is directed toward assisting these governments to create such conditions that they and their people may together and with a minimum of outside help build strong national economies and stable

political systems. It is only thus that the higher standard of living demanded by our friends to the south may be achieved and solidly established.

In providing technical cooperation we do not attempt to suggest for any other American republic the kind of economic or political system or methods which it should adopt. We render such cooperation only upon requests of these sovereign nations. However, when asked for assistance we try to give it in a manner that reveals our own national philosophy of democratic free government, respecting the integrity and dignity of the individual citizen. We believe that our programs are constructed in a spirit which would command the approval of a majority of our own people. In rendering cooperation, we, of course, attempt to support those programs and policies which our experience has led us to believe are best designed to achieve real economic progress.

Latin America is a potential source of great military, strategic, and economic strength. Our cooperation in encouraging Latin American economic growth is one aspect of our policy of helping free nations to resist international Communist influence. Our significant public and private investments in Latin American countries naturally add to our interest in the continuing stability of their economies. Finally, the growing influence and dignity of Latin America in international forums, her traditional friendship with the United States, and her increasing capabilities for contributing to the defense and security of the hemisphere all tend to make the area of crucial importance to the United States and the free world. It is with these considerations in mind that a mutual security program for Latin America has been developed.

## ADMINISTRATION OF THE TECHNICAL COOPERATION PROGRAM

Host government programs presented in connection with requests for technical assistance are carefully examined and evaluated as to their probable usefulness in meeting basic needs in the requesting countries and as to their contribution toward maintaining and increasing the overall security of this hemisphere. Once a program is jointly approved, both the United States and the host country cooperate in the detailed planning for its execution.

While the training of host country technicians both in the field and in the United States and elsewhere is an essential and integral part of each program, the principal device for carrying out technical cooperation in Latin America for 14 years has been a joint service unit or bureau set up within the government of the host country known as a Servicio. This unit is administered jointly by the United States and the host country and is also jointly financed. It is the organization which brings together the technicians of this country and the host country and provides for the effective implementation of cooperative programs. Programs and individual projects are jointly reviewed continuously to determine the time and manner in which projects can be phased out or effectively turned over to the host country for continuation.

At the present time there are 56 Servicios in operation. During fiscal year 1956 the financial contributions of the United States to Servicios will be about \$5,815,000 out of a total United States program of approximately \$28 million and the cash contributions of the host governments will be approximately \$32,381,000, with an additional \$18 million in cash contributions from local political subdivisions (departments and states) and local autonomous agencies. There will also be substantial contributions in kind from host governments, political subdivisions and autonomous agencies, but it is extremely difficult to place an accurate dollar value on such contributions. The dollar value of the cash contributions which are made by Latin American governments in local currencies has been obtained by using the exchange rates published by the International Monetary Fund. In countries where a high degree of inflation exists and where dollar exchange is at a premium these exchange rates tend to exaggerate the dollar value of the contribution, especially in terms of the so-called However, the free rate is in reality the price set on scarce United States dollars and does not necessarily bear much relation to the value of local currency in terms of what it will buy or produce locally. It is almost impossible to make an accurate estimate of the local purchasing power of local currency since it is tied directly to changing prices, wage scales, etc. It should be remembered that the cash contributions of Latin American governments, political subdivisions and autonomous agencies are used locally to carry out our joint programs.

## THE DEVELOPMENT ASSISTANCE PROGRAM

The Latin American countries have preferred to rely on both foreign and domestic private investment and public loans to supplement the benefits that flow from a stable and expanding inter-American trade. In this hemisphere we are dealing with newly developing countries and not economies without adequate human and natural resources to sustain economic development. Therefore, development assistance from this country has been limited to cases of temporary economic energy, and it is in the interests of the United States to continue to render such assistance in areas where such emergencies exist.

#### DEVELOPMENT ASSISTANCE FOR BOLIVIA

In late 1953 the severe drop in the price of tin, combined with a serious decline in production resulting from the nationalization of the tin mines, threatened to cause a major economic crisis in Bolivia, essentially a one-export economy. It was necessary that the importation of capital goods be restricted, and a subsistance level of food importation could be maintained only by drawing on reserves. The United States promptly began a dual-purpose effort to meet this situation. An economic diversification program, designed to reduce Bolivia's dependence on purchasing food with tin earnings, was instituted; the most significant element of this program is the agricultural development operations, which are substantially increasing food production. For the implementation of this program, the United States has been providing the necessary agricultural and industrial equipment and supplies.

Until food production is raised considerably, however, Bolivia will continue to require, as the second aspect of United States aid, direct assistance in the form of food. The greater portion of the sum requested for development assistance in Bolivia is proposed to provide foodstuffs from our own surplus agricultural commodities. The United States plans to terminate its development assistance to Bolivia as soon as a satisfactory level of food importation and pro-

duction can be maintained without outside aid.

#### DEVELOPMENT ASSISTANCE FOR GUATEMALA

The proCommunist regime, which was replaced in 1954 by the present anti-Communist Armas government, left Guatemala with an empty treasury and a severe unemployment problem. In response to the resulting threat of economic crisis, the United States has been assistaing the Government in carrying out a number of projects designed to restore normal economic conditions and to promote further economic development. Urgently needed highway and hospital projects, a rural development program, and a planned area development program are among the most significant of the efforts to mobilize the country's varied economic resources and to demonstrate the Government's ability to accomplish major improvements as to which the Communist regime has been unsucessful. No new activities are contemplated in the coming fiscal year, but the continuation of the projects now in progress is of extreme importance to Guatemala's program of recovery.

The consequences of United States participation in the type of program I have outlined cannot accurately be measured statistically. I believe it is sufficient justification for the United States contribution that this country has had a decisive role in the great development which has taken place in Latin America during the last decade. The Latin American nations seem to regard that contribution as of great importance, for their governments and people have been extremely generous in their expressions of appreciation for the technical assistance and emergency aid which the United States has made available.

Mr. Atwoop. It is a great pleasure for me to have this opportunity to appear before this committee the first time in connection with the mutual security program for Latin America.

## THE PROGRAM FOR FISCAL YEAR 1957

The program that we are proposing is one, as was described by Serretary Holland, which has been developed through joint action of the Government of the United States and the governments of the countries of Latin America.

It has been coordinated very closely in terms of the foreign-policy objectives of the United States, and it is aimed directly at the achievement of goals which are essential to the economic, social and political, and military, security of this hemisphere, and the free world.

Briefly, the program is, of course, in the field of technical assistance, technical cooperation. It constitutes the United States Government's share in the overall economic and social-development program of

Latin America, which was started in 1942.

This program, as it has been from the very beginning, the outset, has been a joint program based on development plans of each country. The United States Government's contribution is determined on the basis of where and to what extent this country can cooperate effectively within its own criteria and within its means.

# TECHNICAL COOPERATION IN LATIN AMERICA

We do not provide technical assistance to all projects that make up the development program of the countries of Latin America. Neither do we, except in a very few cases, provide the major share in any individual project.

We participate by supplying technical assistance in those portions of the programs where technical demonstrations may be expected to

produce effective results.

Now, this total development program, as outlined by Secretary Holland, is of significant proportions. The production in Latin America is increasing at a rate comparable with the highest in the world. The trade with the United States is extremely healthy, and has approached the figure of \$7 billion during the last several years.

Senator WILEY. Yearly, you mean?

Mr. ATWOOD. Pardon?

Senator Willey. You do not mean yearly?

Mr. Atwood. \$7 billion both ways, \$3½ billion export and \$3½

billion imports, at a level of \$7 billion a year.

Investments, both private and public, are expanding. The loans from the Export Bank, and also from the International Bank, are also expanding. At the present time there is a little over a \$100 million worth of local currency which has been generated by the sale of agricultural surpluses, which will be available in the form of long-term loans to supplement the private and public investments for the economic development and increased trade.

Now, this growth in Latin America's economic power has been uneven, both geographically and historically. Certain areas, certain countries, have made tremendous strides, while others have only made

a very, very modest beginning.

The growth has been very rapid in certain years, and it slowed down in others. The rewards of economic development have been unevenly distributed.

There are large areas and millions of persons who have been scarcely touched by the tremendous developments that have taken place.

## OBJECTIVES OF THE TECHNICAL COOPERATION PROGRAM

Now, a few words as to the objectives of this technical cooperation program.

Our program in Latin America is directed toward assisting those governments to create such conditions that they and their people may, together, and with a minimum of outside help, build strong, stable national economies. It is only thus that the higher standard of living demanded by our friends to the south may be achieved on a solid basis.

In providing this cooperation, we do not attempt to suggest for any other American republic the kind of economic or political system or methods which it should adopt. We render such cooperation only

upon request of these sovereign nations.

However, when we are asked for assistance, we try to give it in a manner that reveals our own national philosophy of democratic, free government, respecting the integrity and dignity of the individual citizen.

We believe that our programs are constructed in a spirit which would command the approval of the majority of our own people. In rendering cooperation we, of course, attempt to support those programs and policies which our experience has led us to believe are best designed to achieve real economic progress, and to achieve that in the American way.

# ADMINISTRATION OF THE TECHNICAL COOPERATION PROGRAM

Now a word on the administration of this program.

These are host government programs which are presented in connection with requests for technical cooperation. They are programs that are carefully examined and evaluated as to their probable usefulness in meeting the basic needs in the requesting countries, and as to their contribution toward the maintaining and increasing of overall security of this hemisphere.

Once a program is jointly approved by the United States and by the host country, we cooperate in detailed planning for its execution.

Now, training of the host-country technicians, both in the field and in the United States and elsewhere, is an essential and integral part of each program.

The principal device, however, which is used for carrying out our technical cooperation in Latin America for the last 14 years has been a joint service unit or a bureau set up within the government of the host country, known as a servicio. This unit is administered jointly by the United States and the host country, and is jointly financed.

It is the organization which brings together the technicians of this country and the host country, and provides for the effective imple-

mentation of a cooperative program.

The programs and individual projects are jointly reviewed continuously to determine the time and manner in which projects can be phased out or effectively turned over to the host government for continuation.

# CONTRIBUTIONS OF PARTICIPATING COUNTRIES

During the fiscal year 1956, the financial contributions of the United States to these joint servicios will be about \$5,815,000. That is out of the total United States program of approximately \$28 million. That is the operating level during fiscal 1956.

The cash contributions of the host governments will be approximately \$32,381,000, and an additional \$18 million in cash contributions from the local political subdivisions, that is, Departments or States, and the local autonomous agencies.

There also are contributions in kind, but it is very difficult to place

any accurate dollar value on such contribution. Senator WILEY. What is a typical illustration? Mr. Atwoop. Of the in-kind contributions?

Senator WILEY. Yes.

Mr. Arwood. Well, in supplying technicians. We would call that "in kind." If they are supplying their own technical personnel, if they supply automobiles, transportation facilities, paid railroad fares; if they supplied buildings, equipment, free meals, and so on.

There have been occasions in the past when certain questionable

items have been included in the contributions in kind, but in any presentation we have made here to the Congress, we have not included

such contributions.

They have been mentioned, they have been talked about in certain reports, certain articles that have been written regarding the program.

## TYPICAL AGRICULTURAL PROJECTS

Senator Wiley. Well, you have outlined what their share of the technical assistance would be. Now, what would be a project? We furnish \$28 million in whatever is needed. Now, what projects can you tell us about?

Mr. Atwood. About 30 percent of our projects in the entire area are

in the field of agriculture.

Senator Wiley. All right, that is what we are getting at. What

kinds of projects are we engaged in?

Mr. Atwoop. Well, in the field of agriculture, you would have a program laid out which would involve the increased production of certain products which were deemed essential to the economy of that country; you would have a program associated with it, in practically all cases, in agricultural extension work.

You would have a program associated with it or a project associated with it in health, agricultural farm health, and you would have

probably a program associated with agricultural marketing.

You would have a program associated with farm-to-market roads. You would have a program or a project associated with the storage of agricultural products, the packing, the grading, and so on. That would be a typical agricultural project or program, Senator.

I was actually describing one in Bolivia when I gave it to you then,

but that is typical of the agricultural programs that we have in most of the countries. As you know, most of the countries are basically

agricultural.

Senator WILEY. Then our money is used to furnish the know-how, and they provide the human material and the other things that are

carried out with it; is that right?

Mr. Atwood. Basically, yes. The largest contribution is in technicians who are down there working shoulder-to-shoulder with the technicians of the other country.

The cash contributions that I mentioned, of \$5.8 million, are contributions to these joint funds which are jointly used in order to

facilitate the carrying out of these individual projects and programs. We also bring a great many of the younger technicians from Latin America up to this country or to other countries to be trained, and

that forms a fairly large part of our program.

Senator Wiley. In other words, that comes out of the \$28 million?

Mr. Atwood. That is right.

I think roughly, practically a third of it is in agriculture, about 20 percent of it is in the general field of health and sanitation, about 15 percent in the field of education, about 9 percent industry and mining, and so on. Those are listed in the material that has been presented.

# EXCHANGE STUDENTS

Senator Green. May I ask a question there: What conditions are attached to this aid given to these students who come here?

Mr. Atwood. To the students who come here?

Senator Green. Yes.

Mr. Atwood. There are no conditions attached. They are chosen with the hope and with the planning that they will return and operate in the general field in which they were working in that country.

Senator Green. But there is no assurance asked?

Mr. Atwood. There is no guarantee; no. We cannot make it "Sign on the dotted line." But in the majority of the cases, they have done that. The record is pretty good.

Senator Green. Do they have an alumini association, so-called? Mr. Arwoop. Yes; they have alumni groups in countries, and they meet.

Senator Green. What is the percentage?

Mr. Atwood. I am not sure of the percentage. We have a study of it I could give you, Senator.

Senator Green. I think it would be helpful information.

Mr. Atwoop. I will be glad to try to prepare that for you. We have had a continuous study of that.

Senator Green. Thank you.

(The information referred to is as follows:)

# STATEMENT ON EVALUATION OF TECHNICAL COOPERATION TRAINING ACTIVITIES IN LATIN AMERICA

ICA requires reasonable assurance that applicant participants will, upon completion of their training period, return to the positions which they left, to similar positions, or to superior ones in the same field of activity. All participants are expected, upon return to their country, to devote at least 2 years in work that will aid their country's program of economic development, particularly in the field of activity for which they are trained.

About 80 percent of all returned participants trained during the 13-year period of 1942-55 are still working in positions of responsibilities in the fields in which they were trained. Furthermore, if we take the past 4-year period (1951-55), there were about 96 percent of all returned participants working in fields of

activity in which they received training.

A few outstanding examples of activities of returned participants are as follows:

Division chief positions in the joint services in Peru are almost all held by Peruvians who have been participants.

In El Salvador, four former participants are Under Secretaries of Ministries; 27 are Division Chiefs in the various Ministries; 14 are professors in the National

University and many others occupy key positions in the Government.

In almost every country an outstanding result of training activities has been the development of a corps of trained personnel in the main activity fields, partic-

ularly those of agriculture, health, in which we are working-most of them working at ministerial and department head levels.

Mr. Atwood. But they do have an active alumni group in a good many of the countries. I have attended some of their meetings, and they are a very enthusiastic group, and they form a very significant nucleus in the technical fraternity, so to speak, in those countries.

Senator Green. No doubt it is very large; and if it were, and if you kept track of them and they are doing well, it is an additional argu-

ment.

Mr. Atwood. Yes.

Well, we feel it is one of the most important parts of the program, really, the bringing of the students here.

Senator Green. Well, it isn't as if they all went back home and

did other things.

Mr. Atwood. No, not if they all did. But our experience has not been that, I can assure you. The exact percentage, I cannot give you at this time.

I should mention here that in those figures that I have given you— I have outlined this in more detail in the statement—in those figures I have given you, the dollar value of the contribution of the other country is a very difficult figure to arrive at.

I am not just talking about contributions in kind. I am talking about contributions in the currency of that country, because when you put a value on the currency of another country, you have to use 1 or 2

or 3 different criteria.

If you use the official exchange rate, you will get one value. Naturally, if you use the free exchange rate in certain countries, you are

going to get a tremendously different value.

But I think it is important, and I want to mention it briefly, unless you care to have more detail on it, that in thinking of the contribution of the other country, we are thinking of the value of that local currency in terms of what it will do to help carry out a program in that country.

We are not thinking of it in terms of dollars and cents; in other words, in terms of how many dollars that currency will buy, or how many Cadillacs it will import, or how many trucks it will import.

This money that they contribute is to be used in that country to help carry out the program; and, therefore, the value put on their contribution must be in terms of what it will do within that country.

# DEVELOPMENT ASSISTANCE PROGRAM

Now, I touch very briefly on this development assistance program that Secretary Holland outlined.

The one in Bolivia is dealing with, of course, a newly developing area in Bolivia. It is diversifying the economy of Bolivia, and it is

really achieving outstanding results.

It will take some time before the economy of Bolivia can be called really diversified, but it is achieving very definite results toward that end. Where Bolivia to begin with was 80 to 90 percent dependent on one product, tin is now dividing up between agriculture, between petroleum production, and between mineral production.

That program we expect and are proposing to continue for the next

year.

Senator Wiley. Is it the consensus of all you gentlemen that all

this is making for good will and understanding?

Mr. Atwood. I am very firmly of that opinion, Senator. I have been in and out of these countries for a long time. I know a great many of the individuals who have worked with us in these programs. and a great many, of course, who have not worked with us, but are familiar with the programs. And I really have never seen such enthusiastic support as we have in general throughout this hemisphere for these programs.

Senator WILEY. Well, in many places that we know about, you have the very rich and the very poor. Is there anything about this program which steps into that picture in a constructive way to remedy that

great discrepancy?

Mr. Atwood. Well, I would say indirectly, certainly, it is helping. It is helping to increase the individual productivity of the farmer: and in doing that, I think it will gradually help to bring about an increase in the number of small landowners, the number of independent farmers.

When you give a farmer an opportunity to market his crops, why, he can then go ahead on his own. As long as he has to market it only to one landlord, he doesn't have much chance to expand. He doesn't have much initiative. He does not have much desire to really go for-

ward and expand and increase his facilities.

When you provide the opportunity, these people are very quick to grasp those opportunities, and they are grasping them. And with that, I think you will find an increase in what we have called the middle class, an increase in the participation in the economic life of the country by a much larger number of persons.

All of that, I think, is along that line.

We, of course, don't distinguish. We don't render assistance to big landowners who we think can afford to hire their own technicians. We may have made an exception now and then, but the general rule is that we do not.

We indicate that assistance in that case would not be effective, and

would not be necessary.

In the program in Guatemala, we feel and propose that that program should be continued on a moderate scale for next year, and we feel that it also is making very definite progress toward the goals that were set when that grogram was started a year and a half or so ago.

# PROGRESS IN GUATEMALA

Senator Wiley. I have a few questions here on that very subject, if you don't mind, which I would like to ask you.

Mr. Atwood. That is all I wish to say, Mr. Chairman.

Senator WILEY. As you know, Mr. Secretary, I have been deeply interested in the problem of Guatemala. While the Communist regime was in power, I strongly criticized it, of course. Then when Colonel Armas led a successful revolt, I was happy to praise the new regime.

I wonder what you might like to say now as regards the progress which has been made by the new regime since its coming into power

in 1954. Has it been all an uphill action?

My basic thought was this: I have always felt we should help our Guatemalan friends make of this country a model for the whole hemisphere. We should try to make it a show place, if necessary. We could thereby demonstrate the superiority of the free way of life as against the Communist regime, which brought Guatemala nothing but misery, slavery, and bankruptcy.

Now, has it just been an uphill job, or have they really succeeded?

Mr. HOLLAND. The answer is, Senator, that they are succeeding.

The job is not done. The Guatemalan Government would be the first

to say that the job has not been done.

But in the political field, in the social field, in the economic field, they are making substantial progress. They have made substantial progress.

They have a rather clear idea of where they are going.

Senator WILEY. Has our program lagged?

Mr. HOLLAND. Our assistance at the outset did not move into the country, into the economy, with the rapidity that we would have liked. That was in the initial months after the revolution, when you had to start with no organization, either on our part or their part, in the country because of the vital change in government.

That period having been overcome, since that time our assistance has been moving into the country effectively, and the progress that it has been producing in the fields that I have referred to has been very

considerable.

We are determined that the assistance of the United States—and I know that in this the entire Congress joins, the entire Congress as well as the peole of this country joins—we are determined that the assistance of this Government and of these people shall, as you say, contribute to making of Guatemala a living example of the fact that people under a free government can live better, feed themselves better, house themselves better, raise more healthy children, than they can under a Communist government.

# THE INTER-AMERICAN HIGHWAY

Senator WILEY. What have we done about aid in relation to the Inter-American Highway? You remember, Colonel Armas asked \$10 million in economic aid and around \$9 million for completing the work on the Inter-American Highway.

Mr. Holland. As you recall, last year the Congress appropriated, if my memory does not trick me, \$62,980,000, with the avowed purpose of completing the Inter-American Highway from the northern border

of Guatemala with Mexico, to the Panama Canal.

I followed that program closely because of my intense interest in it. Work is going forward as rapidly as good engineering practices will permit, and a very substantial part of the entire investment—and, again, if my memory doesn't fail me, it is approximately a third—illustrated in Contamela.

wilk be spent in Guatemala.

That makes quite an impact—I don't like that word—but it makes quite an impact on the economy of that country, and the completion of the highway will be one of the biggest economic factors possible in the development of Guatemala, not only because it will contribute to making of the 5 heretofore somewhat isolated Central American countries 1 economic community, but also because it will bring in a very

substantial volume of tourists from the United States and Mexico where, as you know United States tourist expenditures today consti-

tute the major source of dollars of that great country.

And Guatemala, immediately adjacent to Mexico, will certainly benefit to an enormous degree by the completion of the highway, a modern paved highway all the way in to the capital of Guatemala from Mexico.

## LAND REFORM IN GUATEMALA

Senator Wiley. You will remember, Mr. Secretary, that the Communists put up sort of a phony land distribution scheme, and that President Armas has announced a sounder plan.

Can you tell us about the present progress in the land reform in that

country there?

Mr. Holland. I can't give you figures, but I can tell you what is going on; and such figures as you would want, I would be glad to get

President Armas has substantially bettered, if you will pardon the slang phrase, the phoney scheme that the Communist-dominated government had undertaken, in that the program now being carried out by the Government gives to the recipient of the land, fee simple title. It is his land. He is not on the land only so long as he supports the government or performs in the manner that the government directs him. He takes over the land for himself and his heirs and develops it with the assistance of the Government.

And a substantial number of families are now being located on these tracts of land.

# ECONOMIC SITUATION IN GUATEMALA

Senator WILEY. I understand that there has been a drop in coffee prices, and there is unemployment, and because of conditions left over from the Communist regime, the Government still faces difficulties. This is particularly unfortunate because, as I understand it, the President has made some pretty strong promises to the people in relation to improving the economic picture.

Would you care to comment on that matter?

Mr. Holland. Yes, sir.

The coffee prices are excellent. You know, Guatemalan and Central American coffee, with certain Colombian grades, enjoy sort of a premium price. The Guatemalan crop is moving in a very satisfac-

tory way, and at good prices.

The drop in price to which you refer came about in this way, Senator: Historically, a price of about 54 cents for that grade of coffee that we always use to reflect trends in price, which is what they call Santos fours, a price of about 54 cents for Santos fours is a good price The Guatemalan coffee sells at substantially higher than that.

In the latter part of 1953 and the first months of 1954, owing to a combination of circumstances, principally frost in Brazil, the price went up from about that level to about 96 cents, an unprecedented

price.

It came back down from that peak in about the months of May and June of 1954.

We hear a good deal of talk about the drop in coffee prices. It was a drop from 96 cents, an unprecedented price level, to a price level which historically is good. It is now in that range of price fluctuations which historically is good.

And because of the fine quality of the Guatemalan crop, it is being

placed without difficulty, and at those good prices.

Senator Wiley. Then generally you think that, while the situation isn't overoptimistic, it is really picking up.

Mr. Holland. That is right, Senator, and for many reasons. It is not just the aid of our Government that has accomplished it. We cannot export prosperity. If the factors exist in another country that add up to prospects for prosperity, we can accelerate the process, we can speed the people working in that direction, and we try to do it.

It is a combination of the hard work of Colonel Armas and the men who form his government, their industriousness, their foresightedness, the opportunities they are giving to private enterprise.

For example, the Guatemalan Government adopted a very practical petroleum code, one which is fair to the investor and fair to the Government. As a result, they received, if my memory doesn't fail me, applications from 29 petroleum companies, all seeking to enter the country, explore, develop, produce, and give the Guatemalans not only a petroleum industry which will supply their own needs for fuel, but will permit them, I hope, to export petroleum as another means of earning dollars.

That is possible only where the government welcomes private enterprise and gives it those assurances that the private investor, whether he is a domestic national or a foreigner, alike, considers the essential basis

for a sturdy investment.

Senator Wiley. Mr. Chairman, I want to say that it was my privilege to be with the Secretary at the Rio Conference. He speaks Spanish very well, and did a tremendous job down there, particularly because of his understanding of the economic and the physical facts relating to that territory.

#### EXPROPRIATION

Now, I want to ask him just one or two more questions, if I may. One of our problems in South America has been what might be called the tendency of certain governments to expropriate. What do

you want to say about that?

Mr. HOLLAND. Two things. First, I would like to thank you for what I will refer to in Texas vernacular as "dem kindly words," and I am sure that the indulgence of the chairman will permit me to recall an old justice of the peace from my part of the country who conducted a trial, and at the conclusion of the trial the lawyer who lost the case came to the old justice and said, "Judge, I want to thank you for the manner in which you have conducted the trial. You ruled against me, but I had a fair hearing."
And the old judge said, "Thank you, counsel. Thank you."

said, "Compliments are damned scarce in this court."

On the question of expropriation, Senator, first, I believe that the fear in the minds of investors has been substantially reduced in some nine countries by a perfectly practical device which is available to all of the hemisphere, and that is, the investment guaranty program based

upon the law enacted by the Congress just a few years ago.

Pursuant to that law, this Government enters into agreements with the other governments, if they wish to do so, with respect to the rights to be accorded to new investors; and thereafter, for a very modest amount of money, this Government issues an investment guaranty policy to the investor, guaranteeing him against loss by expropriation and against certain of the dangers of convertibility of currency.

I have said, and I believe I am accurate, that those agreements have been signed with nine Latin American countries. We will be glad to consider them with the remainder of the countries, if they wish; and experience has shown that where they are executed, they do constitute

a substantial incentive to the investor.

Senator WILEY. Will you put the nine countries in the record?

Mr. HOLLAND. I will be glad to, Senator. I cannot recite them, but
we will put them in the record.

[The information referred to is as follows:]

#### Investment guaranty agreements with Latin American countries

Country:	Date of agreement
Bolivia	
Colombia	<sup>1</sup> Nov. 18, 1955
Costa Rica	Feb. 25, 1955
Ecuador	Mar. 29, 1955
Guatemala	Mar. 23, 1955
Haiti	Apr. 15, 1953
Honduras	June 10, 1955
Paraguay	
Peru	<sup>1</sup> Mar. 16, 1955

<sup>1</sup> Note: Convertibility guaranties only.

Mr. Holland. Now, aside from that program, I believe that the policies of the governments in the hemisphere generally are strongly directed against expropriations, save where the conditions are those that would be comparable to condemnation proceedings here, with just, adequate, and prompt compensation for the property condemned.

But aside from that type of expropriation, I believe that the strong trend of the policies of the governments is away from that in order to give greater incentive to private investors, their own and foreign-

ers.

# COMMUNIST INFLUENCE IN LATIN AMERICA

Senator Wiley. Just one other question, Mr. Chairman, I would like to ask.

We know that the Soviet Union has a good many more agents than we do in various countries in South America. I want to get your personal opinion as to whether they are getting anywhere in penetrating Latin American countries. We see they have tried to set up trade relations.

What is the situation in relation to the Kremlin and the countries of South America?

Mr. HOLLAND. Sure. We are in executive session; aren't we? Senator WILEY. I hope so.
(Discussion off the record.)

Mr. Holland. So long as the Latin American governments and peoples feel that we, in good faith, will adhere to our announced policy of protecting existing levels of trade with the area, and of seeking to expand those levels of trade, so long as they feel that we will adhere in good faith to our announced policies of generous Export-Import Bank credits and encouragement to our own investors, they will be strong in their resistance to these Soviet overtures.

At this time, down to this time, we have, I believe, as a Government, the Congress and the executive branch working together to implement a bipartisan policy, we have established an excellent record of resisting the perfectly understandable human efforts of our own interested sectors, who again and again and again try by regulation or by legislation to reduce the access of Latin America's products to our markets, either by reduced quotas, increased tariffs, or any of the

other devices that obstruct the flow of commerce.

The record of this Government in recent years has been excellent in that regard. So long as we adhere to that and take the other measures that I have indicated—and that requires some self-sacrifice and some discipline on our own part which cannot be measured just in terms of dollars appropriated for aid budgets; it requires some selfdiscipline and some self-sacrifice—but as long as we do that, we don't have a Communist problem that is insuperable in this hemisphere, because the people and the governments of Latin America very largely are anti-Communist, are inclined to the path—not the United States path, but the path we happen to be traveling in terms of democracy and private enterprise, and it is no monopoly or invention of ours; they are inclined toward it, and they will continue toward it. Deleted.

Senator Wiley. Thank you very much, Mr. Secretary.

# GUATEMALA'S REQUEST FOR ECONOMIC AID

Senator Smith. Mr. Chairman, I want to go to the State Department and see the swearing-in of my good friend, Mr. Merchant, and I have been requested by one of my colleagues on the floor to ask the Secretary some questions about Guatemala.

I would like to have the privilege of asking him these questions

at this time.

The Chairman. Yes, Senator Smith. Senator Smith. First, let me say I want to thank the Secretary here for his courtesy in Brazil last February, and to say again that it is a pleasure to see Mr. Atwood again, after our pleasant trip.

(Discussion off the record.)

#### DELAY IN AID TO GUATEMALA DURING FISCAL 1956

Senator Smith. The other question, Mr. Secretary, is this: A year ago there was a substantial amount of sentiment in Congress that \$15 million of the foreign aid appropriation should go to Guatemala, plus about \$1 million in technical assistance.

It appears that no money was made available to that country until after the fiscal year was half ended, that is, after January 1, 1956, and it has been suggested that this delay seriously slowed down Guate-

mala's economic recovery.

Can you explain the reasons for the delay?

Mr. HOLLAND. May I ask that Mr. Atwood, who is in charge of the

programs, answer that?

Mr. Atwood. The problem in making this money available, actually expending it, of course, has delayed the projects, and I think that statement is more or less accurate. The projects did not actually start

expending money until about the first of January of 1956.

The projects that we had set up and had been discussed informally with the Guatemalan Government prior to the actual appropriation, the money being made available, were projects in roadbuilding, in this new housing area development program that has been mentioned earlier, and it took a considerable length of time for the Guatemalan Government to arrange contracts with the firms which were to work on those roads.

As you know, Senator, the International Bank had put up \$18 million, approximately, to help in this roadbuilding program. Our funds were to be used in connection with that \$18 million in order to

complete the job.

In order to get the contracts signed, the actual contractors chosen, and the contracts signed and the work begun, I thing it is correct that it was about December or January before actual payments were being But there has been considerable progress since that time.

Senator SMITH. I assume the new road which we inspected was one

of the projects you are mentioning.

Mr. Arwood. Yes, sir. You rode over one of the roads which is involved.

Senator Smith. It was hardly a road when we were over it.

Mr. Atwood. It was hardly finished; no.

Senator Fulbright. Mr. Chairman, may I ask a question? Senator Green. Yes; you go ahead.

# AMERICAN SCHOOLS IN THE HEMISPHERE

Senator Fulbright. Mr. Holland, of the various activities involved in this Latin American program, which one do you consider the most

important?

Mr. Holland. I would say that it is hard to distill out a person's own feelings about it, and I am not trying to pour sirup down your back, but I think that the exchanges of persons are as important a things as we do in this hemisphere; but very close to the importance that I attribute to that is the importance that I attribute to help to American schools in the hemisphere.

I hope I am not making this answer too long, but you know— Senator Fulbright. Is that the servicio you referred to, or is that

a different activity?

Mr. Holland. I don't believe they use the term "servicio" for this type of activity.

Mr. Atwood. No.

| Deleted.]

Mr. Holland. I have answered your question perhaps too verbosely, Senator, but I attribute such enormous importance to it that I allowed my enthusiasm to carry it away.

#### AMOUNT OF FUNDS DEVOTED TO AMERICAN SCHOOLS

Senator Fulbright. I would not say it is too verbose. This is a very complicated program.

How much of the requested funds here are devoted to the support of

these schools?

Mr. HOLLAND. In the actual technical cooperation program, we have no funds which are used to support American schools. We are carrying on programs which indirectly aid in the program the American schools are carrying out, but that is an entirely separate fund which is available directly to the American schools.

Senator Fulbright. We used to have a fund for the direct help, a

very small sum, as I recall it, \$150,000 to \$200,000.

Mr. Atwood. That is right, we do have that, but it is not in this

Senator Fulbright. So the most important activity is left out of the budget.

Mr. Holland. It is in the State Department budget.

Senator Fulbright. In the State Department, about \$200,000?

Mr. Holland. That is correct, yes, sir.

#### JUSTIFICATION OF REQUEST FOR MILITARY AID

Senator Fulbright. And yet you have \$35 million, nearly half of this total here is for military help. Do you anticipate any invasion

of Latin America by the Russians?

Mr. Holland. Senator, I wonder if this would not be an appropriate thing for us to do at this time: We have been sort of obliterating poor Mr. McGuire here. I have made my principal statement, Mr. Atwood has made his, and Mr. McGuire has not had a chance to make his.

Senator Fulbright. You, after all, represent, in my view, the foreign policy office, and I do not see why, in executive session, you should not be free to tell me-

Mr. Holland. I would be very happy to. Senator Fulbright (continuing). Whether or not you think there is, in your view, any justification for \$35 million in this hemisphere for military aid, as against \$200,000 for education. Do you think that is a proper proportion?

Mr. HOLLAND. Senator, I would be glad to talk with you all day

long on it. I just wondered if you folks didn't-

Senator Fulbright. I know what the military representatives are going to say. I have already talked to them and know their responses, and there is no end to what the military can take. They would take \$70 million if we would give it to them, and they could spend it.

But I want to know, do you think that there is any justification for

this distribution of public funds? Do you really think so?

Mr. Holland. Yes, I do.

Senator Fulbright. What is the justification for spending \$35 million, when we can only raise \$200,000 for the schools?

Mr. HOLLAND. I would like to see the money for the schools sub-

stantially increased.

Senator Fulbright. You would? Mr. HOLLAND. Sure I would.

Senator Fulbright. Why isn't it? Why isn't this administration

asking for more money?

Mr. Holland. I don't like to see it always couched in terms of: If we increase this thing in which you are interested, why, it has got to be at the expense of something else. But to answer your question—

Senator Fulbright. I don't like it, either. But the administration makes up this budget and brings it down here. Now, you know they cut the request for the overall exchange program, and, as you know, here it is a minute amount for the program which you say is the most important.

And yet you are requesting \$35 million for military aid, and I really do not see any excuse for it. I would like to know what you think about it, and I would want to know from you, rather than from the military. We will let them tell us later. I have heard it for 5 years.

What do you think is the real justification for the request?

Mr. HOLLAND. I will be glad to try to give you my idea of the military justification.

First, Senator, I am not a military man, but I have opinions, which

I----

Senator Fulbright. That is why I want your opinion, because you are not a military man.

Mr. Holland. Sure.

Senator Fulbright. That is exactly it. We understand.

Mr. Holland. It is an opinion which I don't consider from the military point of view, but the opinion is this:

[Deleted.]

The policy that this Government has been following ever since the last war, I understand, is one of making arrangements with the other countries so that, instead of each country undertaking the responsibility of defending its own territory independently of everybody else, in the event of war, we try to set up a hemispheric arrangement pursuant to which, if war should break out, each country would be in a position to make some contribution to a joint effort which would protect the hemisphere, and without the enormous unbearable cost for most of the Latin American countries which would be involved if they tried to have an effective defense independently of others.

Now, I cannot tell you the year that that program was started, but it is a number of years old, and it has contemplated, it has led—

Senator Fulbright. I did not make myself clear. I do not want you to repeat to me what the military people have told us for 5 years. I want your personal view.

Mr. Holland. You are getting my personal view.

Senator Fulbright. You are personally familiar with Guatemala, and we had an experience there recently.

Mr. Holland. Sure.

Senator Fulbright. Was the trouble caused by the fact that they did not have enough tanks, or was it an internal social-economic problem which permitted the rising of the Communists? Did the Communists take that country by force of arms, or did they take it by internal subversion?

Mr. Holland. Let me finish my other answer, and then I will move to this one.

Senator Holland. I have heard that other answer; I think I have. Go ahead.

Mr. HOLLAND. I do not know what the military have told you. I do know what is in my own mind.

Now, to try to conclude rapidly on the answer on which I was

working, and then I will move to your next question:

I believe it is a good expenditure of our taxpayers' money if we can persuade these other countries to maintain, within their own territories, units which would contribute to a hemispheric effort of defense, if it should become necessary, and thus free the very substantial amount of men and equipment to some extent that we had to put into the area during the last war. That makes sense to me.

That is why I believe that this appropriation is a reasonable one.

#### COMMUNISM IN GUATEMALA

Moving to the Guatemalan situation. You know as well as I——Senator Fulbright. Using it only as an illustration of a particular country.

Mr. Holland. Sure.

You know as well as I, the operation that was conducted in Guatemala is the one that the Soviets are undertaking to repeat wherever, in this hemisphere, they find a soft spot, and they found one there. There was nothing military about it.

Senator Fulbright. That is what I am trying to pin down.

Mr. Holland. It was subversion.

Senator Fulbright. Was that soft because we had not put in tanks or guns or ships or airplanes there, or was it because of an internal political weakness?

Mr. HOLLAND. It was obviously what you suggest it was. It didn't

have anything to do——

Senator Fulbright. I do not see yet, despite all you say in this connection, that this military program has any significance to the defense of the hemisphere. It might have had in World War I, or even World War II, but I understand from many sources that there is a change in the tactics of warfare.

I have no criticism of the domestic military program, I mean the support of SAC or research and development in atomic bombs, and all that. If anything, we are inclined to criticize them for being a little parsimonious. There is a direct connection, it seems to me,

between our defense and that program.

But there is all the difference in the world, it seems to me, between what we are doing to develop the intercontinental missile, if you like, or the Strategic Air Force, and putting a few dollars in more or less obsolescent arms in Peru, Bolivia, and Guatemala. These small amounts which, if useful at all, are useful only to the local regime to keep in power or fight their neighbors who have only the same kind of arms, but utterly useless in fighting Russia.

If we come down to it, what are we doing here, what is the objective? We just keep repeating last year, and you yourself unconsciously say,

"Well, our program was so-and-so."

Well, that is what it was, but is it not time to reexamine it and see whether or not this same amount of money would not be much more useful preventing the soft spot that occurred in Guatemala? And

I am not just saying this to try to save money, but I am trying to analyze whether or not we spend it the right way, granted we are going to spend the same amount.

Do you see the point I am trying to make?

Mr. Holland. I see it very clearly. I hope I can remember all the points that occurred to me as I listened to you, not to argue with you, but just to give you my views.

# HOW COMMUNIST AGGRESSION SHOULD BE MET

Senator Fulbright. It is fantastic to me that it is of any benefit to anybody to put in a few arms into any of these countries, and Russia is not going to move in by arms. If they move at all, it will be internally. And if we are going to do anything, we ought to concentrate in improving those conditions by education and economic assistance—loans. I would say we could make more loans, rather than grants.

That is the way we were financed in our early days by the British, and we paid them back. And in that type of approach I see a great

deal of sense.

But I cannot see the sense of the increased military aid down there.

Mr. Holland. Well, let me talk a while——

Senator Fulbright. I wish you would make another effort. It does not satisfy me, just because we have been doing it, that it should be continued.

Mr. Holland. Yes.

Senator, I agree with you that military expenditures which we contemplate or which we are recommending to the Congress are not a defense in themselves against the subversive activities that brought about the situation in Guatemala.

The problem is that you have to maintain, I believe—perhaps I am wrong, but I believe this—you have to maintain some capacity to defend yourself, both on the subversive front and on the military front; and the fact that money spent as a military defense may not be a defense against subversion, and vice versa, is not a condemnation of either expenditure.

Senator Fulbright. On the contrary, I have a feeling that in some parts of the world we have been so anxious to build up the military force that we saddled upon them burdens which they are incapable of

sustaining—creating very bad, dangerous conditions.

#### SITUATION IN TURKEY

I will cite Turkey as an example of one of our best allies. There is no country in the world I would rather favor and do something

constructive for than Turkey.

And yet Turkey is in worse condition today than she has been in 10 years. With the very best of intentions, I think we have gone so far in encouraging her to build up her military force that we have caused her a very serious situation, and I would hate to repeat that with our friends in South America.

There is much more reason to arm Turkey, even with the latest

weapons----

Mr. HOLLAND. Sure.

Senator Fulbright. Than there is to arm Nicaragua, Bolivia, Peru,

or any other country down there.

I think they are quite different in their relationship to Russia, and very often, you know, it is your friends that destroy you more than it is your enemies. You are always prepared to fight your enemies, but your friends come along and appear to be trying to help you, and the first thing you know, they have ruined you.

I am awfully afraid that can happen down there, and I do not see this military program yet. I do not quite see what function it per-

forms, or what objective it achieves.

Think back in this country. When this country was becoming a great country, we were not being loaded down with weapons. fact, we were without much defense, because for a hundred years there was no particular reason to have one, was there?

Mr. HOLLAND. That is right.

#### JUSTIFICATION OF INCREASED MILITARY AID

Senator Fulbright. And it is true we now look back and say, "Well, we should have had a little more military defense." The fact of the matter is, we prevailed in two wars without having a big military, and we had the strength to rapidly create one, and create a modern one, and not an obsolete one.

But now for some reason or other, we cannot get away from the idea we have to militarize everybody. In every one of these proposals here, you look at the amount, and there may be a dime or so for the education and the nonmilitary, but always it is an enormous amount for military.

It is 85 percent of the overall, and I do not like it, and I do not think it makes sense. It is not quite that percentage here, thank

goodness. It is about half, though, is it not?

Mr. HOLLAND. About a third.

Senator Fulbright. Thirty-five out of ninety-six, it is more than a third. It is not quite—it is between a third and a half.

Mr. HOLLAND. It as closer to a third than a half.

Senator Fulbright. But you said that the important thing is the school support and the exchanges, and then the loans. But then you look down here. If that is true, why in the world is all the money going to the military. Why can we not get the amount of money in line with what is important?

That is the real answer I would like to get on this whole program.

Where is the \$35 million going?

Mr. HOLLAND. I do not want to turn loose the floor just yet, but here is the man who is to tell you what they are going to do with the \$35 million.

I will agree with you that you have made a very clear and persuasive statement, but I am a witness and I have got to extract from the statement a question.

Senator Fulbright. Sure. I want you to justify it, if you can.

Mr. HOLLAND. I have got to extract the question and then answer the question. I think this is the question-

Senator Green. As I understood it, he asked you for your personal opinion, and you gave it. Now he is trying to convert you.

Mr. HOLLAND. That is right.

Senator Fulbright. He did not exactly give it. He hedged and said, "The policy has been," and he is repeating what the policy has been.

Mr. HOLLAND. Yes.

Senator Fulbright. I was not quite clear whether you said, "I believe this and I am convinced that we must do this."

You know, you are playing on a team, and there is a limit beyond which you cannot go. But we are in executive session now, and they are not going to report what you say, I am sure.

Mr. HOLLAND. Now let me take out of your last statement what I think was the central question. You pointed out to me how military

programs overburden some countries. [Deleted.]

All right. You have got here 20 countries, and a military appropriation of \$35 million, or a little bit better than a million and a half dollars per country, on an average, a million and a half dollars per country.

Now, Senator, last year the dollar receipts of Latin America, elimi-

nating all military expenditures, were \$4,993,000,000.

Now, when you think of an economy of that size, and then we consider a military program of \$35 million, or approximately a million dollars per country or a million and a half, I think you will agree with me it is not the kind of program that is going to stagger their

economies by overloading.

It simply won't do that, and I go back to the one point that I made: Whether it is policy or not policy, and forget about the team, I think it is sound that for military reasons, for political reasons, we have got, it is in our interest to continue, what is actually a very modest participation on our part in the maintenance of these hemispheric defense units in these various different countries that have signed these defense agreements with us.

I could talk a long time, but I don't think I would do anything

except to say that, maybe in different words.

# LENDING LOCAL CURRENCIES TO AMERICAN BUSINESSMEN

Senator Fulbright. Do you have authority to lend these local currencies that are generated by Public Law 480, to American firms doing business in these countries?

Mr. Holland. Well, there are eight subsections under the Public Law 480, and it is—I will answer you, I will get a better opinion if I

am wrong, but I do think we have that authority.

Senator Fulbright. I was asked this by a businessman who thought you did not have, and it occurred to me you would be a good man to ask. If you do not have it, I would like it in the record. I do not know.

Mr. Holland. Sure.

Senator Fulbright. He said he believed that they would not lend any of the local currencies generated by Public Law 480 to American businessmen doing business within that country.

Mr. Holland. Senator, I think that is wrong.

Senator Fulbright. I wish somebody, if you do not know, would

look it up, or perhaps you do know.

Mr. Atwood. This is the case: It is 104 (g) of Public Law 480, and it says it can be used for loans "to promote multilateral trade and

economic development made through established banking facilities of the friendly nation from which the foreign currency was obtained, or in any other manner which the President may deem to be appropriate."

Senator Fulbright. May I ask, then, has the President under that provision deemed it appropriate in any case to lend these local currencies to any American firm doing business in the respective coun-

tries?

Mr. Atwood. As far as I know, we have not done it in Latin America in a single case yet, directly from the United States account to the private individual.

Senator Fulbright. Can you say what your attitude would be?

Have you had applications for that?

Mr. Atwood. We have not had applications. We have had indications of interest on the part of a great many American firms who would like to get this local currency. But they have not said that they had to get it direct from the United States.

Senator Fulbright. Well, this particular one—and I am not trying to plead his case—was complaining to me, "Why aren't American companies permitted to borrow this money?" And I said I would inquire. I do not know too much about it.

Mr. HOLLAND. I think that is a very wholesome use of the money. Senator Fulbright. It seemed to me they should be permitted, if they are going to borrow it and repay it, to sort of treat it as a revolv-

Mr. Holland. You see, in this hemisphere, those funds are just

now becoming available.

#### FUNDS CREATED BY PUBLIC LAW 480 TO BE USED FOR EXCHANGE PROGRAM

Senator Fulbright. I hope you will see that some of those funds are used for the exchange program. Are you going to see to that?

Mr. Holland. Senator, I am away ahead of you. I have been shelling the woods to get those funds used for the exchange program, and for Fulbright scholarships, and am very hopeful that we will get those funds used for that purpose, and in substantial volume. Senator Fulbright. Well, that is good.

I heard about some of the negotiations that are going on with Argentina and some of the others, but I believe that the program for Chile is the only one that has been concluded.

Mr. Atwoop. There have been several other agreements which have been concluded. The actual loaning of money has not been con-

cluded.

Senator Fulbright. I am talking about exchange now.

Mr. Arwood. Oh, no.

Senator Fulbright. The Chilean agreement for exchange is the only one which, I believe, in your area, has been finalized or concluded.

Mr Holland. Signed up.

Senator Fulbright. But you are negotiating with Brazil, Argentina, Colombia, and Peru, I believe; is that not right?

Mr. HOLLAND. That is right.

Senator Fulbright. I hope maybe to get a little dollar support by an amendment to this bill, to help you round out that program.

Mr. Holland. I sure would be glad to talk to you about it, Senator. Senator Fulbright. I won't take the committee's time. They know what we think about it.

# LOANS TO AMERICAN BUSINESSMEN

Well, then, I would recommend, if you are subject to suggestion, that our American businessmen be made aware of the fact that at least you will receive their applications and, if they are worthy of projects, that they are not excluded.

Mr. Arwoop. I think it ought to be perfectly clear here that they are able to borrow this money from the other governments, and the program which the other government has for loaning money—

Senator Fulbright. That is not the point. They know they can. They think they are discriminated against when they go to the local bank and ask for this money. What they are interested in is borrowing direct from us. I am trying to develop what your policy is.

But I was attacked because they were not eligible under the law. According to what you read, they are eligible under the law. You simply have not seen fit to make it available or to set up any machinery

by which they might borrow it; is that correct?

Mr. Atwood. That is correct. I think I should add, without going into this in great detail, that in connection with these loans the person who borrows this money must guarantee to maintain the value of the local currency; in other words, that means it is actually a dollar denominated account, and private companies would find it extremely difficult, if not impossible, to give that guarantee to maintain the value of the local currency, if they borrowed it directly.

Now, the other government has to maintain the value of that currency, and when it pays it back to the United States it pays it back

in terms of dollars.

Senator Fulbright. Well, the big companies would have no trouble. General Electric, just as an example, would have no trouble in maintaining the value of whatever it borrowed. It would just have to pay you back more, or whatever the local currency is.

Mr. Atwood. That is right.

Senator Fulbright. I do not want to belabor it. I just wanted to bring up the point because I was asked to do it.

I think it would be another way to encourage private industry, perhaps, in the development of those countries.

# THE INTERNATIONAL FINANCE CORPORATION

One other question: Has the International Finance Corporation begun to function yet? I hoped it would function in South America; do you know?

Mr. Holland. It has not.

Senator Fulbright. It has not?

Mr. Holland. I make you that answer, and you will permit me to correct it if I am wrong, but I am confident it has not yet begun to operate. The signature, the adherence to the charter of a sufficient number of nations, and paying in their quotas to activate the thing. It is my recollection at this time either just enough have now adhered or they were just about to cross the line with enough adherents to

get the thing into activity, and everybody contemplates it will be an active organization in this hemisphere.

Senator Fulbright. I am very hopeful it may do a lot in this

hemisphere, as well as others.

#### POSSIBILITY OF A REVOLVING LOAN FUND

One last observation, and I will desist, at least for the present. One thought that keeps coming to me when you mention the millionand a half figure per country for arms, it is sort of a small thing. On the other hand, in the aggregate it is \$35 million. That is about equivalent to what we contemplate as being our contribution to the

International Finance Corporation.

The thing that comes back to me, if we could contribute that amount of money each year as a revolving loan fund, it would be no time until we were really doing business in a big way and helping them really get on their feet.

And yet we go along in this niggardly fashion and we spend a lot

of money which is utterly unproductive in military every year.

#### THE EXPORT-IMPORT BANK

Mr. HOLLAND. You are wrong there in this regard: Our trouble in the Export-Import Bank, Senator, is to get them to make applications. Sam Waugh and I went all around South America, Sam has just

Sam Waugh and I went all around South America, Sam has just come back from Mexico, and Central America; and everywhere we went we said, "Listen, people, the bank is willing to lend for any purpose for which you can use dollars and which contributes to

economic development.

"We have made loans of dollars to convert to local currency, but it is not a very good use of your dollar debt-carrying capacity, because you need dollars pretty much up to the limit of your debt-carrying capacity. So we will lend for any purpose that you can use dollars for that will contribute to your development. We will lend it to government, to private enterprise, to mixed companies, domestic and foreigners.

"A lot of you folks say it is hard to get to the bank, it is a long way off. You can write us a letter, you can go in to the United States Embassy and ask them to help you. You can file an application. You can come at us through the local bank. You can come at us through the shippers. And although we are committed to consider all, not

just those that are advanced by Government."

And, Senator, they have not been making full use of the bank.

Senator Fulkright. I saw Mr. Waugh last night, and he told me himself of the enormous increase in the number of loans in the last 6 months over the preceding. I mean, it is resulting in something; is it not?

Mr. Holland. No, sir. I said here a while ago, just a little bit

before you came in, and I will say it very briefly again:

During the 12 months prior to the announcement of the present policy of the bank, it authorized new credits in Latin America of \$52 million. During the 12 months succeeding that date, it authorized new credits in Latin America of \$284 million.

Senator Fulbright. That is what I mean.

Mr. HOLLAND. But I am not satisfied with that.

Senator Fulbright. I think that is a pretty good record.

Mr. HOLLAND. I think it is pretty good.

Senator Fulbright. Prior to that time, nobody was pushing it and explaining it. There was no real push behind it. It isn't always praiseworthy not to be satisfied, but from 52 to—what was it?

Mr. Holland. To 284.

Senator Fulbright. I am satisfied you are going in the right direction.

Mr. HOLLAND. I am satisfied we are going in the right direction.

That is right.

Senator Fulbright. That is what I want to encourage. The money you are wasting on weapons could do so much good in the International Finance Corp. It could be used in a little different way, I think, to supplement the loans of the Export-Import Bank, about which I am very optimistic.

This other business of going on into equity capital—we will call it

equity investment—is a greater opportunity, I think.

Mr. Holland. Senator, here is where you were wrong, and only on this point are you wrong: If we made more money available for loans, we would not increase the volume of our loans. The money that the Export-Import Bank has available to lend today very substantially exceeds the aggregate of all applications on hand.

Senator Fulbright. I agree with you. What I actually had in

Senator Fulbright. I agree with you. What I actually had in mind there when I was talking about the International Finance Corp. was that they are not really loans, if I understand it. The purpose of that organization is to go beyond loans and invest, we will call it, in sink against a

risk capital.

Mr. HOLLAND. That is right.

Senator Fulbright. There are no corporations—well, other than private investment banks—who run into too many difficulties there.

Mr. Holland. They will not make equity investments. They can invest in securities which can be convertible by other owners into

equity stock.

Senator Furright. I would like to see this Finance Corporation get underway and begin to participate and demonstrate that it can be done successfully. If I understand the plan, I think it is an excellent plan, and I hope it will work.

And I often think how much better to invest this \$35 million in

that kind of development.

#### MILITARY FUNDS TO BE USED FOR THE DEFENSE OF THE HEMISPHERE

I often think it encourages the worst characteristics of the Latin Americans to give them these few guns and planes.

Mr. Holland. Let me tell you a word or two about that.

They are given these appropriations, or these arms that are given under this appropriation are given, as you know, under a written obligation on the part of the recipient that he will not use them save for the defense of the hemisphere. And I believe I am accurate in saying that that written obligation has been meticulously observed down to this time.

Senator Mansfield. Will not use them—

Mr. Holland. Will not be used save for the defense of the hemisphere.

Senator Fulbright. That means they will never be used.

Mr. Holland. I hope so.

Senator Fulbright. How much better it is to put the money into something that will be used. Why do you like the idea of putting it into something that will rust and rot away? That is the only point.

I hope they will not be used. I am not urging they be used.

Mr. HOLLAND. Rightly or wrongly, I believe that it is necessary to have some character of a defense mechanism, even though you hope

you will never use it.

Senator Fulbright. We have got it right here in the United States, and we spend \$40 billion to \$50 billion a year on it, and I hope it is a good one. I will go down the line with anybody who wants to increase its strength.

Senator Green. Now that we are in complete agreement——Senator Fulbright. I will yield to the Senator from Montana.

#### TECHNICAL ASSISTANCE FOR MEXICO

Senator Green. Senator Mansfield, do you have any questions? Senator Mansfield. A few, Mr. Chairman.

Mr. Atwood, is your position in the ICA comparable to Mr. Holland's position in the State Department?

Mr. Arwood. Well, in that it is responsible for Latin America, for the entire area; yes.

Senator Mansfield. You have country desks in ICA, also?

Mr. Atwood. Yes.

Senator Mansfield. I notice that we have a technical assistance program for Mexico this year.

Mr. Atwood. Yes.

Senator Mansfield. Now, are the Mexicans enthusiastic about technical assistance in the investment of the senator of the senat

nical assistance in their country?

Mr. Atwoop. Well, frankly, they are not too enthusiastic about certain programs which we have. One of them we have already discontinued, and the other one is under consultation with the Mexican Government right now.

They were programs that the Mexican Government requested, they were programs that the Mexican Government indicated an enthusiasm for when they started. But I think it would be only frank to say that there was not a wholesale, there was not a complete agreement on the part of all parts of the Mexican Government as to just what those programs were going to do.

In the light of that, we have revised the program this year. The part that we are continuing now, I think it is safe and truthful to say that they are enthusiastic and are taking a very important part

in it. [Deleted.]

Senator Mansfield. Would you say that the Mexican Government is enthusiastic about the point 4 program, generally speaking, in their country?

Mr. Atwood, Generally speaking, I think they do want to cooperate

in the field of technical assistance; yes.

Senator Mansfield. Would you say there is strong opposition to it in Mexico?

Mr. Atwood. No; not throughout the Mexican people. Senator Mansfield. Mexican Government, I am talking about. Mr. Atwood. Mexican Government; no. [Deleted.]

#### LATENESS OF OBLIGATION OF FUNDS IN GUATEMALA

Senator Mansfield. Mr. Atwood, Senator Smith brought up some questions about expenditures of funds in Guatemala, and their late-

ness in being obligated.

Is it not true that the ICA just previous to Colonel Armas' visit to this country, last November I believe, announced that so many millions of dollars, \$14 million or \$15 million, would be made available to the Government of Guatemala?

Mr. Atwood. Yes.

Senator Mansfield. Why did it take so long to make that much money available to that country, which was in dire need of the money, and of which we are supposedly trying to make a showcase for the

rest of Latin America?

Mr. Atwood. Well, all I can say is that in working out the type of project which we had in Guatemala—which, as I mentioned, was helping them in the roadbuilding program, where they had a loan of \$18 million from the International Bank, and in which we were to assist them in setting up the contracts, in picking the contractors, and in getting these projects underway—that it just took that long to get those contracts signed up in a way that was satisfactory, and to get the work started.

We did, however, spend money during that first period, money

which we had from the previous year which was unexpended.

Senator Mansfield. Mr. Atwood, let me say I will accept your explanation, but it seems we are developing a tendency in this country to make these announcements of gifts or grants in economic assistance just prior to a certain event, like the visit of President Armas to this country, and in south Asia just before the elections, which did not create a very favorable reaction.

# CONSTRUCTION OF HIGHWAYS IN GUATEMALA

Now, you mentioned roads in Guatemala. Could you, for the benefit of the committee, list the roads that are being built there at the

present time with the aid of American funds?

Mr. Atwood. Well, outside of the Inter-American Highway, which is a separate appropriation, we are building a highway which connects the northern border of Guatemala with Salvador on the west coast. That is the Pacific Slope Highway.

We also are working on a highway which connects Guatemala City

with the Atlantic coast.

Before that, it was just a railroad connecting them.

Senator Mansfield. There are no roads being built toward mining areas?

Mr. Atwood. No; there are some feeder highways being built on the western slope. Agricultural——

Senator Mansfield. But nothing in the Peten, I think they call it? Mr. Atwood. We are not working on a road there. The Guate-

malans may be themselves. I would have to check that. We are not financing a road there.

#### DEVELOPMENT ASSISTANCE IN LATIN AMERICA

Senator Mansfield. Now, Mr. Atwood, we are, in the field of development assistance, putting into Latin America \$27 million in the next fiscal year. How much of that is in the form of loans, how much in the form of grants?

Mr. Atwoop. One hundred percent during this last year was in the form of grants. For 1957 we have not proposed that any part of it

be made on a loan basis.

Senator Mansfield. Is the ICA interested, anywhere in Latin America, in developing loan programs?

Mr. Atwood. Well, not in the development assistance field.

Senator Mansfield. In what field?

#### LOANS UNDER PUBLIC LAW 480

Mr. Atwood. Well, under Public Law 480, of course, those are loans. Senator Mansfield. Could you give us a few illustrations, a few details?

Mr. Atwood. Well, in the sale of the surplus products to Brazil, there is approximately 27 to 30 million dollars which will be available in local currency, which will be loaned.

In Chile there will be, I think, around 25 or 30 million dollars

that will be loaned.

There is a total of about a hundred million that will be available during the next year.

Senator Mansfield. And what is being made available this year? Mr. Atwood. Well, I think it will be available within the—it is

rapidly becoming available.

Let me see if I have the figures. I think through March 31, it was just under \$100 million. Through March 31, 1956, \$103.9 million.

Now, all of that had not actually been generated. This local currency is generated when these surplus products are actually sold. But agreements were signed up which would amount to \$103.9 million through March 31.

Right up to the present, through May 7, the total is \$108.1 million. Just how fast those will be generated, I can't estimate very closely.

#### LOANS MADE BY ICA

Senator Mansfield. Mr. Atwood, could you furnish to this committee for the record a list of loans made by the ICA in this fiscal year, a list of loans being contemplated for the next fiscal year?

Mr. Atwood. For the loans in the field of the Public Law 480. Those are the only loans we handle. We administer those. We don't

actually make them. We administer them.

Senator Mansfield. Will you give us in detail the progress and the facts of those loans for this fiscal year, and what you propose for the next fiscal year.

(The information referred to is as follows:)

STATEMENT ON LOANS MADE AND CONTEMPLATED BY INTERNATIONAL COOPERATION ADMINISTRATION IN LATIN AMERICA IN FISCAL YEAR 1956 AND FISCAL YEAR 1957

Loans made by International Cooperation Administration in Latin America or pending negotiation in fiscal year 1956 under sec. 104 (g) of Public Law 480 (for economic-development purposes) based on conclusion of sales agreements under title I of that act during fiscal year 1956 1

Country	Date of sales agreements	Total amount of siles agreement (In millions)	Generated local cur- rency 2 planned for use under sec. 104 (g) (In millions of United States dollar equivalents)	Dates of loan agreement
A. Loans negotiated to date (May 9, 1956): Chile Ecuador Peru Do. B. Loans pending negotiation in fiscal	Jan. 27, 1955 Oct. 7, 1955 Feb. 7, 1955 Sept. 20, 1955	\$5. 00 4 00 7 40 3 30	\$4 00 3 10 5 12 2.63	Feb 16, 1956 Jan. 20, 1956 Mar. 6, 1956 Aug. 1, 1955
year 1956; Argentina Do. Brazil Chile Colombia Do. Paraguay Peru.	Apr. 25, 1955 Dec. 21, 1955 Nov 16, 1955 Mar 13, 1955 June 23, 1955 Dec. 20, 1955 May 7, 1956	5 80 25 30 41 80 34 60 5 30 11 60 3 00 2 78	2 30 17.70 31.32 27.68 3.00 7 00 2 25 2.00	(3) (3) (3) (3) (3) (4) (4) (5)

3 Pending.

#### LOANS CONTEMPLATED IN FISCAL YEAR 1957

On the basis of the experience of fiscal year 1956, it is contemplated that loans of local currency generated from sales of surplus agricultral products under title I of Public Law 480 during fiscal year 1957 may approximate a magnitude of 75 to 125 million dollars in Latin America. The exact amounts of local currencies in these loans cannot yet be estimated accurately. It is anticipated that some agreements for loans under section 104 (g) of this act will be made in fiscal year 1957 resulting from the sales agreements executed in fiscal year 1956. The total amount actually loaned during fiscal year 1957 is dependent upon additional number and amounts of sales agreements actually made during the remainder of fiscal year 1956 and in fiscal year 1957; upon the amounts of local currency generated from actual sales made in the recipient countries during the remainder of this and the coming fiscal year under the terms of the sales and loan agreements; and upon the further negotiation of terms and execution of loan agreements with the other governments relating to purposes and uses of the funds.

#### LOANS UNDER PUBLIC LAW 665

No loans involving development assistance or technical cooperation funds were made in Latin America during fiscal year 1956 and none are contemplated during fiscal year 1957.

Senator Mansfield. Mr. Atwood, how long have you had this position as head of the Latin American Division of the ICA?

Mr. Atwood. I was detailed to the ICA July 20, 1955.

Senator Mansfield. This last year.

It is anticipated that any of the loan agreements under the above-listed siles agreements which have not yet been negotived may be signed prior to the close of fiscal year 1956 but some of these, in fact, may be negotiated with the other government in fiscal year 1957.

2 Disposals under title I and "sales for foreign currency." Sec. 104 of the art indicates the use to which the counterpart can be applied, sec. 104 (g) being "for loans to promote multiliteral trade and economic development made through established banking facilities of the friendly nation from which the foreign currency was obtained or in any other manner which the President may deem to be appropriate, strategic materials, services, or foreign currencies may be accepted in payment of such loans."

Have you eliminated any projects in certain of the Central American countries that were found to be not worthy, let us say, superfluous?

Mr. Atwood. Actually eliminated, I would have to check the record. We have reduced certain projects. We have turned over certain proj-

ects to the local governments.

Whether we have actually eliminated the project totally, I would have to check. In other words, when we turn over a project to the local government, we may still be providing consultation, technicians to consult, and therefore it would not be considered eliminated.

#### THE ICA MISSION IN EL SALVADOR

Senator Mansfield. What is the size of the ICA mission in El Salvador?

Mr. Atwood. You mean in personnel?

Senator Mansfield. Yes.

Mr. Atwood. I can get that for you very quickly.

The ICA mission in El Salvador at this time includes a total of 49 programed positions, United States technicians directly employed by ICA, of which 36 positions are presently filled.

Senator Mansfield. What is the project? What type of project is

this mission now undertaking in El Salvador?

Mr. Atwood. It is primarily in the field of agriculture; it is going into the field of industry, helping small industries, and it also has a large portion in participants who are brought to the United States for training.
I think I have got the projects in detail here if you would like to

have them.

Senator Mansfield. Yes; could you furnish them for the record? Mr. Atwood. I would be glad to give you this list. (The information referred to follows:)

PTOGAT VEAD 1957 ICA/TIAA COUNTRY PROGRAM IN EL SALVADOR

FISCAL YEAR 1957 ICA/IIAA COUNTRY PROGRAM IN EL SALVADOR—PROJECT LISTING	
TITLE	SUMMARY DESCRIPTION OF ACTIVITY
1. Agricultural and natural resources	
Cooperative service	This is a joint fund servicio directed toward creating an integrated agri- culture program with the objective of increasing El Salvador's agricultural output.
Servicio administrative support	This project involves the administrative operation of the servicio itself.
Crop improvement	This project involves assistance in re- search and experimentation for im- provement of crops through the intro- duction, testing, breeding, and in selection of those crops most benefi- cial and adapted to the host country.
Plant disease and insect control	This project involves the conducting of research on economically important plant diseases and pests with the purpose of developing effective and economic control methods.

TITLE

# FISCAL YEAR 1957 ICA/IIAA COUNTRY PROGRAM IN EL SALVADOR—PROJECT LISTING—Continued

SUMMARY DESCRIPTION OF ACTIVITY

TILLE	BOWNING DESCRIPTION OF BOILDING	
Soil conservation, fertility, and classification	This project involves research, investi- gation, and studies on soils to deter- mine their characteristics, classifica-	
	tion, capabilities, productivity, and erosion hazard and to find the best soil-management programs, fertility, land use, and soil and water conservation methods.  This project involves the improvement of the animal industry through the teaching of better care and handling of animals, genetic improvement, introduction and testing of breeds, and the better utilization and management of available feed.  This project involves the provision of	
	advice on specifications, building plans, agricultural construction, and assistance to farmers in obtaining the	
Agricultural training	maximum of farm machinery.  This project involves the training of Salvadoran personnel of the servicio and the Ministry in all the fields of	
Agricultural extension	agricultural development.  This project involves assistance in the planning and administration of a rural extension and home-economics	
Vocational agriculture	program. This project involves assistance to the Ministry of Agriculture in the establishment and the initial operation of a vocational agricultural school and	
Agricultural economics	training program.  This project involves assistance to the Ministry of Agriculture in studying production methods and deficiencies, reasons for low productivity, price fluctuations, crop forecasting, and studies related to the economic possibilities of new crops.	
2. Industry and mining		
Cooperative service	This cooperative program, working through a joint-fund servicio, is designed to advise small and medium industries on the improvement of operating methods, including production, management, and sales techniques. It also involves assistance in the development of new industries and in the training of executive, technical and supervisory personnel.	
Servicio administrative support  Manufacturing and processing	This project involves the administrative operation of the servicio itself. This project involves technical assistance to new and established industries. Its objective is to improve the efficiency of small and medium industrial operations so as to lower costs and improve quality.	

SUMMARY DESCRIPTION OF ACTIVITY

# FISCAL YEAR 1957 ICA/IIAA COUNTRY PROGRAM IN EL SALVADOR—PROJECT LISTING—Continued

TITLE

	DOMESTIC DESCRIPTION OF ECTIVATION	
Marketing and distribution	This project is a corollary to the previous one and is aimed at providing assistance in developing economically sound outlets for the increased production contemplated as a result of more efficient operating methods.  This project aims at providing assistance in improved methods of accounting, costing, and the proper keeping of records and inventory controls.	
4. L	abor	
Labor statistics	This project involves technical advice on implementing a labor-statistics program. The project aims at pro- viding the necessary basic data for analyzing labor conditions and for defining adequate action programs	
Employment services	and appropriate labor standards.  This project involves technical guidance in establishing an employment service in El Salvador to cover all major labor market centers and in establishing sound operating proce-	
Apprenticeship training	dures and methods for such a service. This project involves assistance in setting up an inside-industry work-skill improvement program designed to train foremen and other supervisory	
Industrial safety and hygiene	personnel and later workers.  This project involves assistance in developing a nationwide program of work-safety and hygiene including technical study on elimination of hazards, standard setting, appropriate	
Worker education	education, plant safety, etc.  Involves provision of advice on technical standards for the basic education of workers and their families covering fundamental education, democratic trade unionism, civics, recreation, and worker participation in technical labor programs.	
5. Health and sanitation		
Cooperative servicio	The major purpose of this joint under- taking is to support and strengthen	
Servicio administration	the Salvadoran Ministry of Health.	
Public health nursing	This project involves assistance in the training of nurses, both at the National School of Nursing and in the field.	
Public health engineering	This project involves consultative service to Public Health Ministry in the training of sanitary engineers in the construction of rural sanitation facilities	

cilities.

FISCAL YEAR 1957 ICA/IIAA COUNTRY PROGRAM IN EL SALVADOR—PROJECT - LISTING—Continued

TITLE	SUMMARY DESCRIPTION OF ACTIVITY
Laboratory technicians training	This project involves the training of laboratory technicians on the job and the preparation of a course for technician training.
Venereal-disease control	This project involves the training of personnel in the techniques of venereal-disease control.
Biostatistics	This involves assistance in acquiring reliable statistics for the planning and management of enteric disease and venereal-disease-control projects. It also includes the training of statisticians.
Medical education	This project involves assistance to the Salvadoran medical school in im-
Health participants	proving its curriculum and standards.  This project involves the training of Salvadoran technicians in the general fields of public health and sanitation.
6. <b>E</b> d	ucation
Vocational industrial education	This project involves the provision of technical assistance to the Ministry of Education in the training of teachers, the equipping of shops and laboratories, and the development of a curriculum of trade and industrial education institutions.
English teacher education	This project involves provision of assistance to the Ministry of Education in the development and application of modern curricula for training teachers of the English language.
Vocational home and family life education.	This project involves assistance in the training of teachers, the development of curricula, and the equipping of institutions for the teaching of home and family-life courses.
Elementary agricultural education	This project involves technical assistance in training teachers, development of curricula, and selection of equipment for agricultural education courses at the elementary and prevocational levels.
Industrial arts education	This project involves technical assistance in training teachers, developing instructional materials and audiovisual aids, and in equipping shops and laboratories for industrial-arts-education courses at secondary-school level.
7. Public administration	
Advisory service on economic planning_	This project involves technical assistance to the Salvadoran Government

Advisory service and training in public organization and management. ance to the Salvadoran Government in problems of economic development planning and programing.

This project involves assistance to the Salvadoran Government in improving its organization, operations, and procedures, personnel administration and in inservice training and management.

# FISCAL YEAR 1957 ICA/IIAA COUNTRY PROGRAM IN EL SALVADOR—PROJECT LISTING—Continued

#### TITLE

#### SUMMARY DESCRIPTION OF ACTIVITY

#### 9. General and miscellaneous

Technical information services This project involves assistance in improving methods of dissemination of technical information in the technical cooperation program fields of activity.

Senator Mansfield. Mr. Atwood, you will be back before this committee again; will you not?

Mr. ATWOOD. Whatever is requested.

Senator Mansfield. There are some other questions I want to ask at that time.

Mr. Atwood. I would like to add on this questions of loans, in your request for listing the loans, to state that our policy in Latin America is not to give development assistance except in case of temporary economic emergency, when a country has taken advantage of its full loaning capacity or its full borrowing capacity.

Therefore, under the policy we have felt when we do give develop-

ment assistance it should be in the form of a grant.

In other words, we expect a country to have made full use of the Export-Import Bank, full use of the International Bank, full use of its own resources of borrowing, and it is only in cases of temporary economic emergency that we use development assistance or grant aid, and therefore, we do not feel that it should be in the form of loans.

#### BREAKDOWN OF FUNDS FOR DEVELOPMENT ASSISTANCE

Senator Mansfield. All right.

This fiscal year you are giving how much in the way of development assistance to all of Latin America?

Mr. Atwood. We are giving \$39 million.

Senator Mansfield. Break that down by countries.

Mr. Atwood. \$20 million to Bolivia, \$15 million to Guatemala, and \$4 million to Haiti.

Senator Mansfield. And in the field of—that is a total of \$39 million?

Mr. Atwood. \$39 million.

Senator Mansfield. And in the field of technical assistance how much are you requesting?

Mr. Atwood. We are giving approximately \$28.4 million.

Senator Mansfield. In other words, the economic development to three countries—all of them in need, I know—is more than the technical assistance program in all of the 20 Latin American Republics?

Mr. Atwood. For 1956, yes.

#### TECHNICAL ASSISTANCE PROGRAM IN VENEZULA

Senator Mansfield. Do we have a technical assistance program in Venezula?

Mr. Atwood. We have a very small one.

Senator Mansfield. Isn't the Venezuelan budget balanced?

Mr. Atwood. Yes, indeed.

Senator Mansfield. And they have a nice little surplus?

Mr. Atwood. Yes, indeed.

Senator Mansfield. There is a steady continuation of funds coming

How small is the mission there?

Mr. Atwood. The program is about \$140,000. It consists of about 5 or 6 technicians and we make a contribution of about \$25,000 to a servicio, which is carrying on health, sanitation, water supply in rural areas of Argentina. The Venezuelan Government contributes a million and a half to that same program.

[Deleted.]

#### SITUATION IN MEXICO

Senator Mansfield. I think I should say, Mr. Atwood, that I was very much impressed with your personnel, both in Mexico City and in Guatemala.

I think you have some good people down there. However, I was somewhat concerned at the attitude of the Mexican Government itself, and I think a grave situation exists there. I certainly hope that in our desire to be of assistance to our neighbors that we do not, under any circumstances, force our aid down their throats, and that we recognize the feeling of extreme nationalism which prevails in the Mexican Government anyway, and do what we can to bring about a better feeling between the two countries. Mexico is a great nation, we want to be friendly with her, and we hope that in time a greater feeling of mutual understanding will result.

#### TECHNICAL ASSISTANCE CONTRIBUTION TO THE OAS

Now I suppose, Mr. Secretary, that you are the one who has charge of the \$1.5 million of technical assistance contributed to the OAS!

Mr. Holland. Yes. Senator Mansfield. That is in your department?

Mr. Holland. That is right.

Senator Mansfield. Do you think that is enough?

Mr. Holland. Yes, it is, for this reason: We offer to pay 70 percent of the cost of the projects undertaken by the countries on a multilateral basis through the Organization of American States.

We have appropriated last year also, as you know, a million and a half dollars, and the other countries have not produced appropria-

tions on their own part that matched their share.

I feel very strongly, and I believe that you do, too, that projects in this field in which we participate should be projects in which the other countries have a genuine interest, and not projects that we have, to use the slang phrase, "sold" to them. Senator Mansfield. Exactly.

Mr. Holland. And it is for that reason that I say our million and

a half is adequate at this time.

I hope that more and more technical operations in this hemisphere can be moved into the Organization of American States.

# ECONOMIC ASSISTANCE TO LATIN AMERICA

Senator Mansfield. Mr. Secretary, do you think that we have been ignoring Latin America at the expense of Europe, the Middle East, southeast Asia?

Mr. Holland. Let me answer you in this way: Economic—I am going to talk about economic relations, do you mind? That is what you mean, is it not, in their economic development?

Senator Mansfield. Specifically, yes.

Mr. Holland. Surely, you are not talking about military? Senator Mansfield. No. That is the Senator from Arkansas' responsibility.

Mr. HOLLAND. The significance—I am going to say something, which

with some hesitation—I advise you, I think it is very important.

Senator Mansfield. Let me say before you start in that I have some decided opinions on that, so I hope you have some, too.

Mr. Holland, I do.

What I am going to say now I consider very important, not because I say it, but just because the facts would be important, whoever

The importance to any country of its economic relations with the United States pretty much falls, can be measured, by two standards: How much, how many dollars, do these relations produce for that country or area every year in the aggregate from their relations with the United States.

Trade is important to another country because of the dollars that it puts there. Investment is important because of the dollars that it puts there. Loans are important for the same reason; that is one standard.

The other standard is the one we have been talking about here: Do their economic relations with us produce technical knowledge

and experience that is useful to complement dollars?

Now, the dollar measure that I have referred to can again be analyzed from two points of view, quantity and quality, meaning how many dollars do they derive from their relations with the United States, and how do they derive them?

Do they derive them in wholesome recurring dependable constructive ways, or do they derive them by grants and nonrecurring chan-

nels?

I have thought a lot about this, because I have heard the accusation

often made, Senator, to which you refer.

I find that—let us look at the first standard, dollars, how many dollars. Let us apply the first subheading, quantity.

#### BENEFITS DERIVED FROM ECONOMIC RELATIONS WITH UNITED STATES

I divide up the rest of the world into Europe, Asia, Africa, and then Latin America, and then Canada, because Canada, in my judgment is the one nation in the world whose economic relations with the United States are the most mature, are those of nations who deal with each other as equals and with mutual respect and mutual profit. Our economic relations with Canada are sort of a showcase, so I took Canada separately, and I found some very interesting things.

Until 1953, Western Europe derived more dollars from its relations with the United States—and I am eliminating all military expenditures from these figures—Western Europe derived more dollars from its relations with the United States than any other area of the world.

A close second was Latin America.

In 1953, Latin America derived more dollars from its relations with the United States, and I refer to trade, investments, loans, tourist expenditures, all sources of dollars save military expenditures; Latin America in 1953 derived substantially more dollars than any other area of the world. The same was true in 1954. In 1955, Latin America derived more dollars than she did in 1954, but she was passed by Europe slightly because of a big jump in Europe's earnings.

Over the 3-year period, Latin America derived \$14,284 million from the United States in nonmilitary channels, versus \$13,993 million for

Western Europe.

Now, to my mind we are asking ourselves, is Latin America a forgotten area of the world? It is the area of the world which, in the past 3 years, has derived from its economic relations with the United States more dollars than any other area of the world, No. 1.

Now, let us think just a minute, Senator, about the qualitative analy-

sis of those channels of dollars, of those streams of dollars.

What do we want? We want to see our economic relations with all the rest of the world developing in the direction of our relations with Canada. Why? Because Canada derives every nickel of its dollar income from trade and private investment. No grant aid; no Government loans.

Is that desirable? I think it is. It is a wholesome, self-respecting, constructive, self-perpetuating form of earning the dollars that these countries need for their development.

Canada, I believe, has qualitatively the most mature desirable economic relationship with the United States of any country in the world.

Looking at areas, who comes next? Latin America, No. 1, as an

area, in volume of dollars derived from the United States.

Canada is only one country; as an area it is No. 1 in the quality of the sources of its United States dollar income.

# TRADE AND PRIVATE INVESTMENTS IN LATIN AMERICA

The overwhelming majority of this vast amount of dollars that Latin America receives annually from the United States, close to \$5 billion last year, \$4,959 million, the great majority of that great vast river of dollars going into that area is derived from trade and private investments.

Now, what is the trend? The trade is growing. The trade has grown 700 percent.

Senator Mansfield. Where?

Mr. HOLLAND. In Latin America, between Latin America and the

United States in the last 20 years.

What is the next best source of dollars? Private investment. Sixty percent of all United States private investment every year is in Latin America. Thirty-seven percent of all United States investment abroad is in Latin America.

So, qualitatively, Latin America is No. 1; quantitatively, No. 1;

trend, wholesome.

Because I have been very much interested in this, I had charts prepared in the last few weeks. The charts, the lines of the curves on the charts, go up in a very gratifying manner.

What is going on in the area? Gross national production is what the economists tell me that you look at. The increase in the gross na-

tional product of the area recently has been better than 3½ percent per year. The population growth is a little less than 3 percent a year.

As a result there are many millions of more mouths to feed every year, but the living standards of the people whose mouths those are,

are better every year.

Their rate of growth is better than ours, better than that of any

other major area of the world. Is that a forgotten continent?

Now, can we be satisfied with this situation? Can we be complacent

I do not think so, and here is why I do not think so:

Canada, in trade, is only slightly behind all of Latin America. Canada is a country with less than a third of the area of Latin America. It has less than a twelfth of the population of Latin America.

Yet, Canada, as a country, almost equals Latin America as a trading

partner, as a recipient of our investments.

What does that mean? It means that when, to a fraction of the degree to which the potentialities of our economic relations with Canada, have been developed, when to a fraction of that degree we develop the potentialities of economic relations with Latin America, then these enormous figures that I have just given you, and which place Latin America at the head of the parade, will be substantially increased. So we are not justified in complacency.

#### IMPROVEMENTS WHICH MIGHT BE MADE

What can we do to improve this present rather impressive picture? Senators, I think there are about three things we can do and we ought

to do, and we are shortsighted if we do not do.

First, trade: We have got to protect the existing levels of our trade with this area of the world, and we have to do it with the full knowledge that from time to time we are going to have to resist the efforts of our own interested special interest groups, acting in a perfectly human way, who come in and try to eliminate competitive products.

We are going to have to follow a policy that will require some sacrifice on our part, some self-discipline, but which will be in the

greater national good. Protect existing levels of trade.

Then we have got to increase those levels of trade, and it can be done, to use a slang phrase, "As sure as God made little green apples." It can be done.

I am not going to bore you with how it can be done, but I have

ideas—I think I see how it can be done.

Next, we have to continue our very wholesome policies of generous access to governmental credits for sound development projects, the kind of loans that a man can incur without classifying himself as a mendicant, without losing his self-respect.

We have got to continue our fine policy in that respect, and increase, as I told you, Senator Fulbright, the use of the Export-Import Bank.

We have to continue to encourage our own investors to go into the area, and here is a thing over which we do not have control, but where we can be influential: We have to encourage the other governments to do those things that will attract our private investors.

Let me give you an example or two. What are those things? First, control of inflation; second, reasonably practical taxation procedures in the other countries; third, and kin to taxation, reasonable regulation of utilities so that for example, the utility companies are not afraid to invest the additional amount of money that is needed to supply adequate amounts of electric power in the countries; fourth, reasonable assurance of nondiscrimination against foreign investors.

Now, you have heard Venezuela talked about here, Senator Mansfield. If you had known I was going to talk so long, you never would

have asked a question—but I am about through.

Senator Mansfield. I have some comments to make.

Mr. Holland. First, Venezuela is a sort of showcase of private enterprise and as a result, there has been a flow of private investment into that country that makes its standard of living, makes the average annual income of your Venezuelan citizen, far exceed that of any other Latin American country.

Now, people say, "Oh, yes; that is the oil business in Venezuela."

But that is not true.

Money has flowed into Venezuela for iron mines, for all kinds of industry.

But move over to Peru. They did the same thing there. [Deleted.]

#### SITUATION IN CHILE

But the latest—and this is one of the most dramatic things that have happened in the hemisphere in the economic field since I have been in this job—is the situation in Chile.

For 30 years, inflation in Chile was just wild.

That Government decided that it was going to do things that had to be done.

Last year the rate of exchange hit a high of 840 to 1. It is 500 to 1 now. It has come down from 840 to 500 because of a courageous program of credit controls and similar restrictions imposed by the Government.

Another thing that they did there was reasonable taxation. They adopted a law that imposed reasonable taxation on their No. 1 industry, copper. The result is that \$98 million in new investment is being made in the copper industry.

They have just adopted a reasonable law for taxing the nitrate industry. Result: \$36 million of new investment in the nitrate in-

dustry.

# MORE UNITED STATES FUNDS TO AFRICA THAN TO LATIN AMERICA

Senator Mansfield. Mr. Secretary, all those facts may be true, and I note that what you are doing is emphasizing the role of private investment in Latin America.

What I am trying to get at is this; as far as Europe, the Middle East, South Africa, and the Far East are concerned, there have been Government investment, Government loans, Government grants, technical assistance, economic development, as well as military assistance.

I know what they have done down in Chile, they have done a good job. But the Chileans are not over the hump yet. They have made a reduction in the inflation, but they have a long way to go before they get back to normal. So far things seems to be good.

I believe your speech said that we have \$7 billion invested in Latin That is correct, is it not?

Mr. HOLLAND, Six and a half.

Senator Mansfield. Well, six and a half.

The result is that what we have is a Latin American economy dependent more or less on private investment, and that is fine. with the American Government giving out money all over the world, the area which gets the least, and, I think, even less than Africa, is the area next door, which comprises the Latin American countries. What about the German traders going into Latin America, what are

they doing to make dents into our activities in that field down there?

Mr. Holland. Senator, you made one point, and you moved to another one.

May I comment on the first one?

Senator Mansfield. I made 3 or 4 points.

Mr. HOLLAND. I would like to comment on one of your earlier points, if I may.

Senator Mansifield. Go ahead.

Mr. Holland. You have pointed out that, and I will accept your statement readily, although I do not know that more Government

capital goes to Africa than to Latin America.

Senator, I think that if what we are seeking is economic development, and they are in Latin America developing more rapidly than in any other area of the world, if what we are seeking is economic development and strong economies, what we want is this aggregate figure that I have been talking about: How many dollars do they get and how do they get them?

Latin America gets more dollars every year from the United States than any other area of the world, some—I wish I could tell you exactly how many, but many times more than Africa, many times more than

Africa.

Senator Mansfield. Not because of governmental activity, but be-

cause of private investments, which is a good thing.

Mr. Holland. But you will agree with me that the important thing is how many dollars go into the area, and not how many dollars you get by handouts.

#### CONCENTRATION ON OTHER AREAS OF THE WORLD

Senator Mansfield. No, but the dollars, whether it is by handout or private investment, always come back. This is the only home they

But what I am trying to get at is that we have been ignoring Latin America from a governmental point of view since the inception of the Marshall plan, and concentrating on Europe, the Middle East, South Asia, and the Far East.

For example, we are putting in \$1.2 billion in the Far East at the present time, I believe.

Are we putting in \$100 million into Latin America?

Mr. Holland. Senator, your thesis is that when a country, when an area, is getting more dollars than any other area of the world

from good sound sources, that it is somehow or other good policy for us to go and insist on their taking more in the form of grants from the United States

Senator Mansfield. Oh, no, don't twist my words, Mr. Secretary. Mr. Holland. I am not attempting to twist your words.

# UNITED STATES INVESTMENT IN THE REHABILITATION OF LATIN AMERICA

Senator Mansfield. What I am saying is we are not investing in the rehabilitation of Latin America to the same degree that we are in other parts of the world.

Now, there are people down there who need a lot more help than

they are getting now.

Senator Fulbrights talks about the exchange program so we can

exchange students and professors back and forth.

We have a picayunish point 4 program which I think is the best program in this Government's economic policy, because I think it helps people to help themselves.

I will say, incidentally, this University of Puerto Rico which is training these people of Latin America is doing an outstanding job,

and I would like to see it expanded tremendously.

But they have the idea that we have an interest in these other areas,

and are not interested in them.

My point is maybe we are taking them for granted, and the end result is if we do not change the policy and help these people raise themselves up through a bigger point 4 program and things of that sort, it will react against us in the long run, and we will pay a pretty stiff price for taking them for granted.

Mr. Holland. Senator, I believe that between the aims that you seek and those that I seek—I say this with great sincerity—there is

no difference.

If there is a difference between us, it is on the one thing upon which, I think you do not agree with me, and that is when we see to the south of us an area that is growing more rapidly than anywhere else in the world, an area into which flows a volume of dollars greater than into any other area of the world, an area whose trade is growing rapidly, an area where 60 percent of all private investment by the United States goes every year, an area in which 58 percent of all new credits authorized by the Export-Import Bank went during the last fiscal year, an area where 30 percent of all new credits authorized by the International Bank during the past fiscal year went, that when we see those figures, that development, that volume, that quality of economic relations, it is not sound to say that it is a forgotten area, and that we are neglecting it.

Moreover, they are progressing by giant strides toward the kind of economic relationship that we have with Canada and which, in my judgment, is the most stable, the most mature, and the most mutually

profitable that can exist between nations.

Let me say one more thing.

Senator Mansfield. Mr. Secretary, let me say this: If you are going to compare Latin America with Canada, you are chewing off a big hunk, because the Latin Americans have long steps yet to take before they will ever achieve the stability which Canada has now, and has had over the years.

What I am getting at is this: That from the viewpoint of Government, we are paying more attention to the rest of the world than we

are to our next-door neighbor.

It is not a matter of how much dollars are going out or coming

I know what private investment is doing down there, and they are doing a good job; but private investment is doing the job down there which must be done, and we are paying attention to the rest of the world, I think to the detriment of Latin America.

Mr. HOLLAND. Let me comment specifically on that.

Senator Mansfield. I did not want to get into an argument, so if you will make your answer short, we will get around to Mr. McGuire here, and he will tell us about the defense.

Mr. HOLLAND. I will make it short or suppress it.

Senator Mansfield. Make it short.

### POINT 4 PROGRAM IN LATIN AMERICA

Mr. HOLLAND. You said you were dissatisfied with the volume of

our point 4 program in Latin America.

In Latin America, Senator, we have an outstanding offer to expand and diversify our participation in these programs, and the volume of the budget that we are submitting to the Congress is a volume measured by their desire for our participation.

I know of no single case-maybe Mr. Atwood can correct me-but I know of no case in Latin America where the local government is interested in our participating in a program, and where we have de-

clined to do it.

The volume of our activity in the technical assistance field is one established by them.

#### LOANS TO LATIN AMERICA

Second, the volume—you spoke of loans, we ought to be making more or you thought we should. The volume of our loans in Latin America is one determined by them. We have an open-ended commitment that every sound application for an economic development loan, where the money is not readily available from private investors because we are not trying to eliminate them—or from the International Bank—because it is a fine institution, and we want to keep them operating-will be made by the Import-Export Bank.

I have said several times today we are not satisfied with the use being made by the Latin American of the Export-Import Bank, and we send people into the field to explain the accesses to the bank, to explain the bank's services, to try, frankly, to produce loan applications.

The fact that our lending activities are not going on at a greater

level is because they are not making use of them.

Let me say one last thing. We are not complacent a bit. We think we have got to be tenacious and resourceful and aggressive on trade, on investment, on loans, on technical assistance.

Senator Mansfield. Well, I only hope that we do not lose sight en-

tirely of Latin America.

There is another question I want to ask about. What about-Mr. Holland. Do I sound like a fellow who has lost sight of Latin America ? 🕒

#### GERMAN TRADE IN LATIN AMERICA

Senator Mansfield. What about the German trade in Latin America? Are the Germans penetrating there?

Mr. Holland. They are increasing, oh, yes. The Germans are in-

creasing their activity.

They are nowhere near their prewar percentage of the business in Latin America.

The French are increasing their activities. The British are in-

creasing their activities.

We are having to compete with business again just like we used to have to do.

[Deleted.]

Senator Mansfield. That is all, Mr. Chairman.

The CHARMAN. Anything further?

I do not believe we have heard from you; have we?

Mr. McGurre. No, sir.

Mr. Holland. Mr. Chairman, may I say something off the record? The Chairman, Yes.

(Discussion off the record.)

The CHAIRMAN. All right, Mr. McGuire.

# STATEMENT OF E. PERKINS McGUIRE, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MUTUAL DEFENSE ASSISTANCE PROGRAMS

Mr. McGuire. Mr. Chairman, I have a very brief statement and I would like to read it if I can, and if I may.

The CHAIRMAN. Yes, sir.

# COMMUNIST INFLUENCE IN LATIN AMERICA

Mr. McGuire. Latin America is an area geographically remote from the Iron Curtain, but it is not insulated against the spread of Communist influence. For example, you will recall that in the spring of 1954 Guatemala was in the hands of a Communist conspiracy and it appeared that the Government of Guatemala was about to become a satellite nation. Fortunately, the Guatemalan people revolted and the Communist-inspired government was overthrown.

International communism had lost an advance base in the Western Hemisphere as a result. Today we are faced with a more subtle type of Communist infiltration, as exemplified by the Soviet economic approaches to Latin America. This is in keeping with the new policy of peaceful coexistence. In addition, there have been reports of Communist salesmen soliciting orders throughout the Latin America

area for military equipment.

Since the early days of our Republic, the United States has had a keen interest in the development of a stable and independent Latin America. The Monroe Doctrine is almost the oldest of the continuing policies of the United States. We cannot ignore our neighbors to the South. We seek two things from them: One, that they continue friendly to us; the other, that they make appropriate contributions to their own defense and to hemisphere defense.

# MAINTAINING FRIENDSHIP WITH LATIN AMERICA

One important way to maintain a longstanding friendship in Latin American countries is through the technical development and assistance programs. Another way which also furthers our second objective, hemisphere defense, is through the military assistance programs. We desire to build up the armed forces of the Latin American countries which have signed bilateral military assistance agreements with us to a point where they will be able to contribute effectively to the defense of the Western Hemisphere. During World War II it was necessary to divert 100,000 men from the United States to insure the security of Latin America.

It is believed that such a large diversion of manpower will not now be necessary in the event of a future world conflict. The 12 nations which have signed bilateral agreements with the United States have agreed to raise, train, and construct certain military forces recommended by the Joint Chiefs of Staff for the defense of the Western Hemisphere. The United States contribution seeks to make these forces effective through training and through the supply of essential

equipment.

### NATURAL RESOURCES OF LATIN AMERICA

Latin America is an area of vast resources: For example, oil and iron ore in Venezuela, tin in Bolivia, and copper in Chile. Strategically located Brazil, greater in size than the United States, is closer to the old world than any country in the Western Hemisphere. The countries of Central America, due to their close proximity to the Canal Zone and the United States, are also important. When viewed in terms of Western Hemisphere defense, the importance of this farreaching area becomes even more apparent. The United States, therefore, has a responsibility to itself, as well as to the free world, to insure that international communism does not obtain a foothold in the Western Hemisphere.

#### MILITARY ASSISTANCE TO LATIN AMERICA

Problems in other parts of the world have of necessity dictated a lower priority for areas such as Latin America, which are relatively secure from direct attack regardless of changing world conditions. For this reason the amount requested for fiscal year 1957 for the Latin American area is smaller. It is based primarily on a maintenance program to maintain the efficiency of end items already delivered.

While there are some new items to replace worn equipment, the program does not provide equipment for any new units to the force basis already established. The program planned for fiscal year 1957 will assist the Latin American countries in maintaining the necessary military forces to meet their hemisphere defense responsibilities.

That is the end of the prepared statement, sir.

The CHAIRMAN. Are there any questions of Mr. McGuire?

(Discussion off the record.)

Senator Fulbright. Do we spend a lot more at our naval base at Guantanamo than we spend in South America?

Mr. McGuire. I think we do.

Senator Fulbright. Again I am not for cutting down on our defense. It is that we just fritter it away, just a little dab here and there.

I do not see any connection between the objective we are after and what this kind of program does. It has nothing to do with the maintaining of a powerful defense position. I think those are entirely two different questions.

I have nothing more.

The CHAIRMAN. Is that all that you have? Is that all this afternoon?

Mr. McGuire. Yes, sir.

The Chairman. Thank you very much for being with us today. Tomorrow we will meet in the Caucus Room at 10 o'clock, in open session.

(Whereupon, at 5:15 p. m., the committee adjourned, to reconvene at 10 a. m., Thursday, May 10, 1956.)

# **MUTUAL SECURITY ACT OF 1956**

# THURSDAY, MAY 10, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to recess, at 10 a.m., in the Caucus Room, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Mansfield, Smith (New Jersey),

and Langer.

The CHARMAN. The committee will come to order.

Senator Tydings, we are very glad to have you as the first witness. Senator, you know how committees work here, especially toward the busy end of a session, and in a political year, too. You may proceed, and we hope that other members of the committee will be coming in. Of course, the record will be made available to them.

Mr. Tydings. Thank you, Senator.

# STATEMENT OF MILLARD E. TYDINGS, REPRESENTING THE HOCHSCHILD MINING INTERESTS AND THE ARAMAYO MINING INTERESTS IN BOLIVIA

Mr. Tydings. Mr. Chairman and gentlemen of the committee, I am Millard E. Tydings, and I am appearing this morning to speak on the Bolivian situation as it affects our Government, our citizens, and the citizens of other countries, other than Bolivia; and I specifically represent the Hochschild mining interests in Bolivia and the Aramayo mining interests in Bolivia, two of the largest tin companies there.

And indirectly, but not officially, I am commenting on some aspects of the Patino Mining Co., of Bolivia, which is the largest tin com-

pany there.

Mr. Chairman and members of the committee, thank you for the opportunity you have given me to discuss some aspects of America's foreign-aid policy in Latin America—specifically our foreign-aid policy with Bolivia.

# UNITED STATES POSITION IN WESTERN HEMISPHERE

We all know that the United States occupies a very special position in the Western Hemisphere, and particularly in Latin America. We are the principal bulwark of the basic liberties of men and the guardians of law and order as we know it.

Likewise, because we are the richest and most powerful nation, there has been a continuing disposition to aid where necessary our less fortunate neighbors and to resist the growth of communism in the Western Hemisphere.

Among the things the United States has stood for in the Western Hemisphere are respect for the rights of man, freedom of religion, freedom of political action, freedom of the press, and protection of

the right to own and use private property.

By the example this country sets and by our adherence to the principles we support, we adhere to and give meaning to the system of international law on which life in this hemisphere has taken root.

This is the underlying principle which I believe should actuate all United States policy in dealing with its neighbors. It is the essence

of comity between the nations of this hemisphere.

Now you gentlemen of this committee know, and I think most Americans know, that the present policy of our Government is to encourage the investment of American capital in the countries of the Western Hemisphere in order that the natural resources of these countries may be developed, greater prosperity follow, and the standard of living be raised for the peoples who inhabit North and South America.

Indeed, Americans have staked more than \$6 billion of our national wealth into thousands of constructive enterprises in Latin America. These investments have been made by our citizens upon the premise that their investments would be protected in the countries concerned, that international law would always be applicable, that the constitutions of the respective countries protecting personal and property rights would be respected, and that confiscation of their properties would not be undertaken by the countries of the Western Hemisphere without prompt, fair, and immediate payment for any properties seized.

At this time when our Government is making extensive aid and grants to Latin American countries, partly in money and in goods and services, it is wise to review not only the efficiency with which these sums are being used but whether or not the hundreds of thousands of American investors in these countries are being fairly treated.

If they are not being fairly treated, then it would appear that this is an opportune time for the reexamination of our program of aid to see that the basic principles of justice and fair dealing are carried out in the future before more aid is extended to countries which do not seem to appreciate that elemental justice is a two-way street.

# QUESTION OF FAIR TREATMENT OF UNITED STATES INVESTORS IN BOLIVIA

This brings us to the main question: Are United States citizens who have large investments in Bolivia being fairly treated? Is our State Department, or indeed our Government, unmindful of the rights of persons who are not United States citizens in our Government's dealings with Bolivia? Is our Government pursuing policies which violate the elemental rules of international law, both as it affects our own citizens and others, in exchange for the millions we are spending in and giving to Bolivia? Does Bolivia exhibit a reciprocal desire and policy to deal fairly with our own and other citizens in accordance with the basic precepts of international law?

I think it can be easily demonstrated that both the policies of our own Government failed to protect our own and other citizens, on the one hand, and that Bolivia is callous of the injustices which it is doing to our own citizens and others who are doing business with Bolivia, upon the other.

So, on the basis of considerable information which I will supply to you, I am going to ask this committee to decide whether law and order, whether respect for international obligations and reasonable protection for democratic principles have been helped or hindered through the benevolent use of power in Bolivia. Or, whether the results which have been achieved are precisely opposite to the aims we had hoped for.

#### AMOUNT OF UNITED STATES AID TO BOLIVIA

It is a fact that Bolivia has been clearly singled out by United States administrative agencies as recipient of the most bountiful and unrestricted assistance program in the history of our dealings with Latin America. Bolivia takes first place in the amount of aid we have given to the Latin American countries.

According to estimates which I have assembled and will, if requested, submit to the committee, our policy of assistance to Bolivia has cost the United States Government at least \$160 million since our program was first undertaken in November 1953.

Of this \$160 million, approximately \$55 million has been given to Bolivia in money, products, and services, and more than \$105 million in the purchase of tin from mines in Bolivia which were confiscated by the Bolivian Government in 1952 and for which mining properties the owners, some of them Americans, have never been paid.

To show the extent of our benevolent help to Bolivia, if we had donated that sum of money directly on a per capita basis to the people of Bolivia, it would have amounted to a total of \$50 for virtually every man, woman, and child in that country. That is the equivalent of a gift of nearly \$17 for every man, woman, and child in Bolivia on an annual basis.

In May 1954, a representative of the State Department asked you to approve a grant of \$16 million for Bolivia alone out of a total of \$21 million which was earmarked for the entire Latin American area, and your committee was later persuaded to raise this total from \$16 million to \$20 million for Bolivia alone.

In addition to this generous grant to a single country in relation to all the other countries of Latin America, let me point out that we have made a continuing commitment to buy tin ores from Bolivia—even though not essential to national defense—as an additional part of our program of assistance to the Bolivian Government.

And it is no secret that every commitment to buy, process, and stockpile these Bolivian tin ores has been the product almost exclusively of our own State Department, and not infrequently these purchases of tin have been made at the instance of our State Department over the protest and refusal to do likewise of the officials who are in charge of our stockpiling program.

#### COMPENSATION FOR AMERICAN PROPERTIES CONFISCATED IN BOLIVIA

The Bolivians did announce the sum of \$26 million for the mines in a nationalization decree of October 1952. That is, the Bolivians said the seized property was worth \$26 million. This was unilateral; in fact, a Government fiat, without consent or consultation with the companies, and fixed by a board appointed by the Government only. It was, therefore, in violation of Bolivian law as set forth in the constitution of that country, and of international law.

Shortly thereafter, the Bolivians attempted to obliterate this debt by answering that they had discovered that the companies owed them \$520 million. The most conservative valuation that has been placed upon the properties of the Patino, Hochschild, and Aramayo companies which were nationalized is about \$80 million for the mines and equipment. This is not a high figure, considering the previous yield in dollars of the mines when they were operated by the private companies.

This does not include an estimate for the ore reserves which were explored and brought into operation by the private companies. It does not include, either, the fact that the warehouse stocks of the three companies at the time of confiscation, above ground, amounted

to more than \$20 million.

Therefore, the minimum value of these properties at the time of

confiscation was at least \$100 million.

In comparison with this figure, we find that the Bolivians have paid a total of \$2,591,000 to the companies for retentions out of the sale of tin, lead, zinc, silver, and gold. This covers the entire period for confiscation, from October 31, 1952, and running up to December 31, 1955. This would be the equivalent of payment of \$800,000 a year on a retention basis. Considering the value of the properties, and the original promise by the Bolivian Government to pay interest on the principal value until compensation was set up, this would represent a less than 1 percent per annum payment for interest. This cannot be called compensation for these properties, although it is sometimes so represented by Bolivian officials.

The only other payments to the companies were a total of \$3,030,000 representing payments on Wolfram contracts negotiated with the United States Government in 1951 by the companies.

Senator Green. Mr. Chairman, I have been unable to follow the

last part of the statement.

Mr. Tydings. This is an insertion.

Senator Green. Are you reading from the text?

Mr. Tydings. No. This is an insertion.

Senator Green. In the future, will you kindly say when you are beginning to put in an insert and when you stop?

Mr. TYDINGS. I will, indeed. Senator Green. Thank you.

Mr. Tydings. That is the end of this insertion, and I then start again where I left off, on page 5, the last paragraph.

## RELATIONSHIP OF TIN STOCKPILING PROGRAM TO PAYMENT FOR CONFISCATED PROPERTIES

Within the past few years the pursuit of this additional stockpiling policy instigated by our State Department has resulted in the piling up of such an excess of tin in our strategic stockpile that it has resulted in the often repeated, and I think justified, statement that our State Department has converted the purposes of strategic stockpiling to a program of a State Department-Bolivian planning program.

And mark you this—excess stockpiling of tin represents the purchase by our own Government of tin from confiscated mines for which the owners have not received (a) an agreement fixing the value of the confiscated properties, after 3½ years, or (b) a method of eventual

payment for the same.

So, after  $3\frac{1}{2}$  years since these properties were originally confiscated by the Bolivian Government, and while our State Department has continued to ask for large sums to aid the Bolivian economy and has asked for the purchase of nonneeded tin for additional stockpiling, it has been unwilling or unable to induce the Bolivian Government to fix the value of the confiscated properties, on the one hand, and to provide for eventual repayment to the former owners for their lost properties, on the other.

And keep in mind that in the largest tin company in Bolivia, over half of its stockholders, and I am told 90 percent, to be exact, are

American citizens.

To me it is incomprehensible that the officials in the State Department would not say firmly to Bolivia, "We cannot extend to you more aid; we will not urge the further purchase of tin and other minerals from these confiscated mines unless under extremely fair circumstances you sit down with the owners of the confiscated mines or their agents or representatives and decide on the value of the confiscated properties and evolve some plan of eventual repayment for the same."

Instead of that, we go on aiding them and buying tin from the

confiscated mines of American owners.

If we were not extending aid to Bolivia in money, goods and services, if we were not buying tin which it is doubtful that we really need for stockpiling purposes, even where American investors are involved our Government might have justified a hands-off policy, although

I think this would be highly questionable.

But where we are giving in one form or another many millions of dollars in grants and aid to Bolivia and are continuing annually to buy large quantities of tin from the confiscated mines, it would seem to me that the lack of action taken by our State Department, particularly to protect its American investors in some of these mines, is absolutely incomprehensible.

And even if there were no American investors in these confiscated mines, morally and legally it is highly questionable as to whether or not the State Department should buy tin from seized and confiscated properties for which the owners have received no compensation in

payment for the seized properties.

I am adding here an oral comment.

We are somewhat here, our Government is, of an international "fence" which is taking the property of confiscated or expropriated mines without seeing that the owners are paid for it.

Now, continuing:

## UNFAIRNESS OF THE STATE DEPARTMENT POLICY

This basically is the nubbin of my complaint and the reason for my appearance here today. Does this Government still adhere to international law? Does it still embrace the principles of elementary justice? Does it still care for the rights of its own citizens, or does it subordinate them while compelling these same American citizens to contribute through taxes to the support of the citizens of Bolivia, which country has caused them to lose their own investments abroad!

It may be asked, "Have you carried your protest of this injustice to the State Department officials?" The answer is "Yes," on numerous occasions. The elemental unfairness of our State Department policy, both in reference to American citizens and to the citizens of other countries in regard to our policies in Bolivia, has been repeatedly pointed out to the responsible officials of the State Department in personal visits, written protests, and in other appropriate ways.

#### EXCERPT FROM HANSON'S LATIN AMERICAN LETTER

I would like to digress for a moment and read from Hanson's Latin American Letter. Mr. Hanson publishes this either monthly or weekly, and it is one of the most factual reports on what happens in Latin America of any publication, and is widely used by business

I would like to quote from a section of it dated March 31, 1956. In that letter it is said, on "The \$250 million program for Bolivia":

If the State Department has committed the United States to a \$250 million program of grants to Bolivia, it is important that American investors and exporters know it, since it would mean that adverse action by the Bolivian Government during the period could be countered by the leverage provided by the longterm donation program. If, further, this "temporary" program has become a permanent commitment by reason of the fact that the existing government's mismanagement assures an indefinite continuance of the "emergency," it is likewise important that the facts be known. (Needless to say, the commitment would be illegal since the annual appropriation is a matter for the Congress to decide on the basis of the annual false testimony of the State Department.)

We turn therefore to the official record of the meeting on November 26 at which State Department and Exim Bank officials discussed with President Paz Estenssoro and his staff the \$250 million program for assistance to Bolivia:

(1) Paz Estenssoro-

## he is the President of Bolivia—

said that "if the present government were to disappear and to be replaced by a right-wing government, the cost to the United States for economic aid would be much greater than it is today." The reasoning behind this statement was apparently this: The present regime has already done so much damage in the form of (a) a sharp decline in real wages and standard of living as a result of the more than doubled cost of living every 12 months, (b) decline in productivity in the mines and a general deterioration in discipline among the workers, (c) inflation of note-issue and dissipation of reserves until the currency is practically worthless, (d) extensive graft in the distribution of counterpart and loan funds, (e) gradual distribution of arms to civilian labor which holds out a threat of indiscipline under incitement with massacres dwarfing the hangings from the lampposts, that even the present government needs more donations just to keep the lid on, and a new government would merely inherit all the damage and all the unfulfilled promises and all the economic chaos which United States aid was intended to alleviate, but which in fact has grown worse.

And further on in the letter it continues:

It is rather interesting that nowhere in the minutes of the meeting of November 26 is there mention of compensation for the stolen properties. The deterioration in the properties incident to the control by the new management seems to be widely admitted by the Bolivians, but there was no raising of the issue of compensation by the United States delegation. The integrity of the position of foreign investments overseas is apparently believed to be furthered by ignoring questions of compensation for theft of properties in a top-level discussion of the alternative methods by which \$250 million in donations can be made to a country engaging in expropriation without compensation.

I return now to the original statement on page 8, second paragraph. In addition to what I have said, much of the American press, newspapers, magazines, and the like, have repeatedly pointed up the incredible position which our State Department has taken in this matter. I could bring before the committee possibly two score or more of leading newspaper and magazine articles highly critical of the policies of our Government in this regard.

#### EXCERPT FROM BARRON'S MAGAZINE

I will read a short excerpt from just one, Barron's, a widely known business magazine. Let me read it. May 7, 1956, quoting:

This session of Congress, it became clear last week, will approve most features of the administration's foreign aid program, but it should not close its eyes to errors in the carrying out of that program. Outstanding among them is the grandiose assistance granted by the United States to Bolivia. In the past 2 years that country's cost of living has been rising at the phenomenal rate of 10 percent a month, setting a new record for peacetime inflation. At the same time, its national output has been declining, agrarian reform has jeop-dized farm production, and the expropriated tin mines now raise less metal than they did under the control of the so-called tin barons.

While United States aid has made up these deficiencies, it has failed to help Bolivia to help itself. Economic assistance that goes to waste clearly is in nobody's interest. Nothing illustrates that fact better than the speeches of Bolivia's real boss, labor leader Juan Lechin, who inveighed against the Yankee imperialists, without whose generosity his country literally might starve.

This month's elections will give Bolivia a new government, which should be prevailed upon to steer a new course.

Now on page 8, the third paragraph:

#### RELIEF FOR INVESTORS

I hope I may be permitted to point out respectfully that I think this committee and its companion committee in the House of Representatives is the last forum in which these justifiable criticisms should be considered and appropriate action taken to relieve both our American investors and the investors of other countries from whose confiscated mines our Government is now buying tin.

I believe an examination of the constitution of Bolivia will show that properties may be expropriated by the Bolivian Government but only upon the payment of fair, just, and adequate compensation. Likewise, until a mutually satisfactory agreement fixing the value of these confiscated properties is effected and some provision made for their eventual payment for the confiscated properties, no interest on the investors' money is forthcoming.

#### RESULTS OF GOVERNMENT OPERATION OF BOLIVIAN MINES

In addition to the above, the experiment of government operation of

the mines has proved a dismal and acknowledged failure.

First, all of the foreign-born scientists, technicians, engineers, and production executives, whose skills made it possible for Bolivia to produce tin that could be delivered to the market at a profit, have been driven out of the country. Production has dropped from a previous normal average of 34,000 tons of tin to a level of 29,000, and then 28,000 tons for 1954 and 1955, due to the technical incompetence in the management of these mines, nepotism, lack of order, and other defects inherent in the nationalized operation.

If this continues, it will have a decided effect and place in jeopardy

some of the future strategic plans of our own country.

And in that connection, the report of the Malone Committee on Stockpiling, which I won't read but which is reproduced in the American Metal Market, and which is very informative, shows that if the present deterioration of the mines in Bolivia, that is, because of inefficient mining, goes on, there will be no good tin to mix with the common tin to make the kind of alloy that you must have.

For they are only taking out the good tin, and leaving all the other

stuff there, and there is not enough now to make good tin.

I would like to insert that in full in the record at this time.

The CHAIRMAN. All right.

(The article referred to is as follows:)

DARK PICTURE SEEN FOR BOLIVIAN TIN BY SENATE GROUP

FINDS LITTLE PROMISE FOR FOREIGN CAPITAL, MINES NEGLECTED

Washington, May 7.—A dismal picture of tin mining operations under the Paz Estenssoro administration in Bolivia is presented in a report soon to be issued by the Senate Committee on Interior and Insular Affairs.

The report is the result of a study made by the Critical Minerals Subcommittee, headed by Senator Malone, who visited Bolivia and other mineral producing South American countries in 1954. It has been supplemented by an appropriate of the country situation.

appraisal of the current situation.

Since the expropriation decree there has been virtually no expenditure of capital funds by the Bolivian Mining Corp. for mine-development work, replacement of obsolete and wornout machinery and equipment, or plant maintenance, Senator Malone reported.

Inadequate technical supervision, faulty administration, lack of proper supplies and replacement equipment, and unruly and arrogant labor have all con-

tributed to the decline in production.

The committee reported that Bolivia's largest tin mine, the ex-Patino property at Llallagua and Catavi, which alone at one time supplied about one-third of the country's total tin production, is at present in very bad shape.

#### DAMAGE TO MINES

It also reported that permanent damage may have been done to the mine in an effort to maintain or increase production during the first 18 months of government operation. The mine in the first half of 1954 was producing 650 tons of fine tin, as against the pre-expropriation rate of 940 tons. The Malone group doubted the ability of the management to maintain even the lower rate.

Exploration and preparation work have been virtually nil, and the higher grade vein ore, which is needed to bring up the average grade of ore fed to the preconcentration sink-float mill, has been mined indiscriminately and is no longer available to blend in the necessary proportions with the lower grade block-caved ore and selected dump material. As a result of this practice, the subcommittee reported, the average grade of material going to the sink-float plant has dropped from 1.1 to 0.9 percent tin.

The subcommittee reported that other Bolivian mines are showing a comparable decline of product with 4 exceptions, 2 of them the highest cost producers, which have even shown increases. However, production of the small miners' group, normally about 10 percent of Bolivia's total, has virtually vanished, and the "medianos," the intermediate producing group that formally supplied up to 20 percent of Bolivia's total, has diminished from 18 to 6 producing companies.

#### OUTLOOK

"The United States must be deeply concerned over such threatening trends, but the way to reverse them is not clear," the subcommittee reported. "For the Bolivian Government to turn the major mining operations back to private industry would be so contrary to its principles and political commitments as to be out of the question. Any suggested solution to the problem would necessarily be highly speculative. The disastrous trend might be curbed by organization of a mixed company, attractive to competent private foreign capital in a minority-control capacity, but successful operation of such a company would require management control of labor and free disposal of the product without Banco Minero intervention. It would also have to permit outside investors to receive a fair proportion of the foreign currency resulting from the sale of output, at least until amortization of their original investments, with a specified sharing of profits between the Bolivian Government and private capitalists. A decree or decrees permitting these adjustments might provide a step toward attracting badly needed foreign capital and technical competence into Bolivian mining."

Commenting upon the resignation of the directors of the mining corporation in February 1955, the subcommittee said: "A new board is not likely to be more efficient than the old one. The foreign operating staffs have left the country; and an attempt is being made to operate the mines without benefit of technical

knowledge, but this can only end in disaster.

"Politically it is necessary to continue to operate the mines, if possible, regardless of losses, as over half the total population depends on mining in one way or another."

#### REGIME NOW MARXIST

The report points out that the Department of State, which constantly appraises political, social, and economic developments, has concluded that the Bolivian Government is now Marxist rather than Communist and has advocated United States support of this regime on the same premise that it advocated support of the preceding military junta—to prevent displacement by more radical elements.

It is noted that teaching of communism is tolerated throughout the national education system. Political concentration camps for dissenters are maintained at various localities throughout the country. Confiscation and censorship of newspapers and the radio also have been effected to the point where Bolivia no longer has a free press or communications.

On the investment outlook the congressional report has this to say:

"The current situation in Bolivia offers little assurance of investment advantage in that country, although several new investment laws have been decreed. The experience of foreign capital investors, the inability of the Government to furnish adequate guaranties under present conditions, and the improbability of improved conditions under existing Government policy deter further investment."

Mr. Tydings. Previously the mining industry contributed more than three-quarters of the total revenue of the Bolivian Government through taxes upon that industry in one form or another. It virtually supported the entire government before nationalization.

Here is what has happened since nationalization:

At the time of nationalization in 1952, the Bolivian Government had a currency which sold at a ratio of about 150 to the American dollar. Since nationalization, the rate has steadily increased. Instead of 150 to the dollar, it went to 900 to the dollar in 1953; 3,000 to the dollar in 1954; 4,000 to the dollar in 1955, and is currently in the neighborhood of 5,700 to the dollar.

Thus, the inflation resulting from the destruction of private ownership, which, as I say, contributed three-quarters of the tax revenue to the Bolivian Government, has increased almost 40 times since nationalization, or from 150 to the dollar in 1952 to nearly 6,000 to the dollar in 1956.

## AMERICAN CAPITAL INVESTMENTS IN BOLIVIA

And the irony of the whole thing is that our National Government is now urging American investors to develop the resources in countries like Bolivia by the investment therein of additional millions of American capital, and this in the face of its lack of action to protect the American capital already invested in Bolivia, as the above facts clearly

In 1952, Bolivia's foreign currency reserves were about \$34 million. Today they are currently reported to have decreased to a mere \$4

million.

This fast and loose policy of our State Department has resulted in a situation of galloping inflation and onrushing bankruptcy for the Nation. Instead of attacking the problem of the mines and rationalizing their production, they are asking for fresh capital from the

United States to diversify the economy of Bolivia.

What will become of this new capital if it receives no more consideration from our State Department than has been given to the previously invested capital that came from American investors? And what is the use of a partial guaranty for new capital by the United States Government if it turns its back on the already invested American capital which has been the lifeblood of Bolivia and upon which its Government has almost completely existed?

All that our Government is doing, in my humble judgment, now is to postpone the evil today when more and more inflation will lead the country to possible bankruptcy. If more United States or other capital is to be attracted to Bolivia, the quickest way to get this new capital is for our own Government to take the leadership in showing that the already invested American capital cannot be seized unless fair compensation is returned to those who originally invested it.

I will now divert for a short insertion.

I would like to point out that geologists show that Bolivia is a country extremely wealthy in unexplored minerals in addition to those that have already been found. It is the one great natural resource of the There are no others of any consequence.

My own investigations have shown that foreign capital is reluctant to go into Bolivia because of the wishy-washy policy of our own State

Department in protecting capital already invested there.

Now I am coming to a matter in my prepared statement that I hope will receive the close attention of the committee when it deliberates.

#### GUATEMALAN NATIONALIZATION

Now, in another country, Guatemala, a couple of years ago, the United States was faced by a situation which was in all respects pretty much on all-fours with that which we now confront in Bolivia.

There was confiscation; there were broken promises; there was repudiation, and a failure to face up to the need to compensate, by the country in question.

There was, furthermore, the threat of communism and of bank-

ruptcy in the country concerned.

I am referring, of course, to the problem of Guatemala. During that period our State Department, acting with full, firm faith in the principles of private ownership and the right of compensation, confronted the Government of Guatemala with an ultimatum calling upon that country to settle its obligation reasonably and honorably.

At that time it said:

The Government of the United States is warranted in expecting not only that the law of Guatemala shall be applied fairly as to American nationals, without discrimination, but also that both the law itself and its application shall conform at least to minimum standards required by international law.

Continuing, the American note said:

"When states in the exercise of their sovereign prerogatives determine as a matter of policy to nationalize the property of foreign states or their nationals, they are under the obligation to pay just compensation for such property.

Still continuing, the note said:

Just compensation may be defined as that compensation which, as indicated in the previous Aide-Memoire of the United States on the present subject, is "prompt," is "adequate," and is "effective"—otherwise the payment is not "just."

Still continuing, the State Department said to Guatemala:

The obligation of a state imposed by international law to pay just or fair compensation at the time of taking of property of foreigners cannot be abrogated from the international standpoint by local legislation. If the contrary were true, states seeking to avoid the necessity of making payment for property expropriated from foreign nationals could avoid all pecuniary responsibility simply by changing their local law. Every international obligation could thus be wiped off the books. But international law cannot thus be flouted. Membership in the family of nations imposes international obligations.

#### IRANIAN NATIONALIZATION

On another occasion, President Eisenhower wrote a letter to Prime Minister Mossadegh in which he stated, at a time when the Anglo-Iranian Oil Co. had been seized by the Iranian Government headed by Mossadegh:

Many American citizens would be deeply opposed to the purchase by the United States Government of Iranian oil in the absence of an oil settlement.

Then what is to be said, may I add, for the purchase of tin from Bolivia owned by American stockholders, by our own Government?

But it does not appear that the United States Government, where it itself is directly concerned, adheres to such lofty and elemental concepts of justice. For it not only gives the tax money of American citizens who are investors in confiscated Bolivian properties to help support the Bolivian Government, but it has taken no action to secure that these investors, or foreign investors for that matter, get such kind of settlement in advance as President Eisenhower advocated in the Iranian oil dispute.

And the President continued, and I quote President Eisenhower:

—considerable sentiment in the United States against the Iranian settlement offer based merely on compensation for the physical assets of the Anglo-Iranian Oil Co., which was ousted from Iran by the nationalization of the oil industry. In its latest proposals for a settlement, Britain asked compensation also for the value of enterprise in the development of the oilfields.

How can this committee and how can the present administration justify such a statement concerning the Iranian oil dispute where no American investors were involved, and turn its back on a similar situation where American investors are involved, on the one hand, and where we are actually buying tin instead of oil from confiscated mines, upon the other?

Have we a stronger policy to protect foreign investors in Asia than we have to protect the investments of our own citizens in Latin

America?

#### REMEDY PROPOSED

It seems to me that the answer is inescapable. We are more concerned with foreign investors than we are of our own, as the facts I have cited clearly illustrate. I think we should treat both our own and foreign investors the same. We should stand for the elemental justice in any case, if we claim to be a moral and spiritual

nation and are governed by international law and justice.

What is, then, the remedy? It seems to me that our State Department should insist in the firmest manner that appropriate steps be made to institute a fair and impartial agency to at once fix the value of the mines that were confiscated in Bolivia; that then this value be agreed to by both the Bolivian Government and the representatives of the investors whose mines were confiscated; that the agreement go on to fix the manner and time in which the former owners are to be paid for their confiscated property.

Also, in the meantime, that the United States Government make plain that in the case of Bolivia it holds to the same standards it set forth in the Guatemala case and in the Iranian oil case as a condition precedent to further aid or further purchases of commodities from

the confiscated mines in Bolivia.

May I add, in one paragraph, that I am hopeful that at the very least, the committee in its report, in giving aid to Bolivia, might find appropriate language to call this situation to the attention of the American State Department and, if we are to give this aid, paid for in part by the American investors in these mines, if we are to give this aid to Bolivia, that then I think there should be a warning that our American citizens are entitled, in view of the aid we are extending, to receive equal and just and fair treatment from the Government of Bolivia at an early date.

I want to thank the committee, and will answer any questions now

that the committee desires to direct to me.

The Chairman. Senator Green, have you any questions? Senator Green. Yes.

## DISCUSSIONS AND CORRESPONDENCE WITH STATE DEPARTMENT

Fundamentally, your statement seems to nowhere quote any statement of the United States Government refusing to do what you now claim they should do. I think the brief is lacking in that respect.

Mr. Tydings. I pointed out, Senator Green, that we had called this matter to the attention of the State Department. I made numerous visits, the mineowners made numerous visits. I think a great many American investors have probably written to the State Department, and I have been down there, myself, with groups, perhaps a dozen times, asking them if they would not point out to the Bolivian Government the injustice of this whole matter.

And they have said they would. But we have never gotten any results, and we have never received any explanation from the State Department as to why we couldn't get results that I thought were

Senator Green. Is there any correspondence to that effect?

Mr. Tydings. Yes, sir; there is correspondence where we have laid our protests before the State Department in writing, and they have acknowledged them and said they would take it up with the Bolivian Government. But that is all we have ever heard.

Senator Green. How long ago was that?

Mr. Tydings. Oh, I should say there have been 2 or 3 a year ever since confiscation.

Senator Green. Well, when was the last communication between

you two!

Mr. Tydings. We were down there, I think about 4 months ago last, when we had quite an extensive talk with Mr. Holland and others. Senator GREEN. And there have been written communications be-

tween the two parties?

Mr. Typings. Yes, sir. I don't know why we can never get an answer. I have been to see Mr. Hoover, I have been to see Mr. Holland. Senator Green. Why didn't you communicate any further with

Mr. Tydings. We never got any answer concerning this matter.

Senator Green. Was there more than one communication to which you did not get an answer?

Mr. Tydings. No; we never got any answer to any of them except an

acknowledgment of our protest.

Senator Green. How many were there?

Mr. Tydings. I would say there must be at least 8 or 10 written, in addition to about 6 or 8 oral protests.

Senator Green. Well, I am talking about written protests.

Mr. Tydings. I would say there must be 8 or 10.

Senator Green. And no answer was received to any of them?

Mr. Tydings. All they get is, "We acknowledge your letter, and we will take it up, and you will hear from us in due time." And that is as far as I ever get an answer.

Senator Green. When were the latest exchanges?

Mr. Tydings. The last oral protest?

Senator Green. Written.

Mr. Tydings. I left a written memorandum with them at the same time. I think it was January or February of this year.

Senator Green. Could you insert in the record that last corre-

spondence?

Mr. Tydings. I could insert several, sir, if you would like me to, of the protests I have continually made, and the companies have made, to the State Department.

Senator Green. And its answers.

Mr. Typings. I will try to provide that for the record.

Senator Green. Thank you.

(The correspondence referred to is on file with the committee.)

Senator Green. That is all.

The CHAIRMAN. Senator Langer?

Senator Langer. No questions.

Senator Smith. Mr. Chairman, I am sorry I had to be late this morning.

I am glad to welcome my good friend, Senator Tydings, here.

Mr. Tydings. How are you, Senator?

Senator SMITH. I think I received a communication from you probably along the same line of your testimony, so I am reasonably familiar with it. I just want to ask one question.

I assume you have covered this with the State Department, because I had some talks with Mr. Holland about this after I received your

letter, and I understood they had talked with you about it.

Mr. Tydings. Yes, sir.

Senator Smith. I was just wondering what the nature of the State

Department's attitude was. I am not quite clear on that.

Mr. Tydings. As I just stated in answer to Senator Green's question, I said that I thought we had filed at least 10 or 12 papers with them, explaining our position, the injustice of the matter, and asking them for some help.

In addition to that, I believe we must have appeared, well, to be conservative, at least a half-dozen times, sometimes with the mine owners, sometimes by myself, discussing this same matter orally.

The State Department was always very courteous, but all we got back from our written protests, as I recall, is "We have received your letter of such-and-such a date" or "your statement of such-and-such a date. We are glad to have it, and we will see what can be done," or something of that sort.

And in our talks with them, they always said, "Well, we will look into it again." But nothing ever came of it. We are in exactly the same position today, Senator Smith, that we were on the day these mines were confiscated. That is, we have no agreement fixing the value of the property; we have no agreement as to the method by which the American or other stockholders will be paid.

And keep in mind that in the meantime, our Government is buying the tin from the mines that were confiscated. Our own Government is acting as an international "fence," without reflecting on it in a criminal way, but they are receiving stolen goods for which the owners

have never been paid a cent.

Now, if the Government of Bolivia had paid us for the mines, of course, our Government would be justified in buying the tin. But as they have not paid us for the mines, how can our Government go in and buy the tin from mines where Americans and others have invested large sums of money? And that has been the burden of my talk here today.

Senator Smith. I did not mean to ask you to repeat what you had

already said.

Mr. Tydings. That is all right.

#### COMMITTEE ACTION SUGGESTED

Senator SMITH. Just one further question: Are you suggesting that this committee, in considering the foreign aid bill this year, should use the leverage that we have to say "Nothing doing" to Bolivia for any aid to them until they attend to this? Is that what you are trying to say?

Mr. Tydings. I do not want to be harsh, Senator, and vindictive. I realize they have gotten themselves into a terrible mess down there. These mines are deteriorating so fast that I wouldn't be surprised,

These mines are deteriorating so fast that I wouldn't be surprised, eventually, to see them abandoned, unless they can get new people with know-how in to run them. And, please understand me, I am not

here with a club. I want to help Bolivia, not hurt it.

But the point is that I think the committee might well consider in its report, whatever it does in the way of aid to Bolivia, to put a note in there that, "We are buying tin and giving assistance to Bolivia, which country has seized the property of American and other citizens and has not made any compensation; that this violates our stand in the Guatemala case, it violates our stand in the Iranian matter," where we wouldn't buy the oil, as you will recall, because of the seized stuff, until it was paid for, and that, therefore, the committee feels that Bolivia must come forward with something in the way of a solution which is fair and just and equitable, or aid in the future might be in jeopardy.

I am not giving you the words. I am giving you the idea that I think ought to be in the committee report; and it ought to be strong enough, in my humble judgment, to bring some order out of the chaos

and confusion that has resulted.

The reason I say that, my opinion is that this matter will drag along for 50 years, it has already gone nearly 4 with no action; as long as they get aid and we do not make any protests of any consequence, they will keep on getting aid, and postpone it and postpone it.

Senator Smith. I am sure we will be glad to look into the matter

and I will personally take it up with the Department.

#### CONDITIONS IN BOLIVIA

Just this further thought. I was in Bolivia with the Hollister mission last February, and I became aware of the fact that Bolivia had been a one-product country, and that was really what was the source of its present difficulty.

We are moving toward a program of helping them to develop their own agricultural possibilities, to see if they cannot feed their own

people, who are in dire poverty.

Mr. Tydings. I know it.

Senator SMITH. There is a wretched situation there, as you know. But that is no excuse for things that are going on as you have brought to our attention.

I am grateful to you for emphasizing this point, and we ought to

look into it.

Mr. Tydings. May I add one other thing. I have talked with some of the mine owners about this matter, and I can say quite honestly that their position is one of sympathy, even though they are the injured parties, for the conditions in Bolivia. However, they cannot see why an agreement fixing the value of the mines could not be set before all the property is dissipated.

If they even had that and could work out how the payment was to be made later, I think you would find them most cooperative and tolerant. They want to help Bolivia, because their money is in Bolivia, millions and millions of dollars in it. They do not want to take a

club and beat the country to death.

But at least they are entitled to a fair deal. Senator Green. May I ask a further question? Mr. Tydings. Yes, sir.

#### POSITION OF STATE DEPARTMENT

Senator Green. Has the State Department ever either denied or admitted these statements of fact which you have set before us?

Mr. Tydings. I think it would be fair for me to say that the State Department realizes all the facts that I have presented here this morning.

Senator Green. That is not what I asked. Has it ever admitted

Mr. Tydings. I think I could answer that in the affirmative, Senator Green.

Senator Green. And it has never denied them?

Mr. Tydings. I think that is true. Senator Green. Thank you.

Mr. Tydings. Thank you, sir.

#### OWNERSHIP OF CORPORATIONS INVOLVED

The CHAIRMAN. Of course, these were Bolivian corporations, were

they not, Senator?

Mr. Tydings. The Patino Corp. is on the big board of the New York Stock Exchange, Senator George. I do not know what its locale is, but I think it is a Delaware and American corporation. I could be

The others, I think, are Bolivian or Chilean or Peruvian, or something of that sort.

The Chairman. But they have American stockholders?

Mr. Tydings. The Patino Corp. has over half of its stockholders, I am advised as many as 90 percent are Americans, and that stock has gone way down until today it is not worth very much. And it is getting its revenues from other countries, although its biggest holdings were in Bolivia.

The CHAIRMAN. We had this matter up last year when this bill, the mutual security bill, was under consideration. My recollection is that the State Department's representatives or the mutual security people said they were taking some steps to try to bring some adjust-

ment of these matters.

But, so far as the committee knows, there have been actually no

concrete results.

Mr. Tydings. We have never had a chance to sit down with the Bolivian authorities and try to agree on the value of the mines, which we would submit from our own books.

## BOLIVIA'S USE OF "STORES"

Now, this is important. I touched on it, but I might take just a second to reemphasize it: At the time of confiscation, in food, clothing, machinery, repair parts, oil, gasoline, and other things, what you call stores, there were over \$20 million of the stores available, which had nothing to do with the mines themselves, movable property, that had been shipped in to keep the mines running, to the extent of \$20 million, in warehouses on the site at the time of confiscation.

Now, that is a whole lot of property. Since then the mines have been operated without replenishing that stock, and they have used

nearly all of it up, I am advised.

So, not only have they taken out the best tin, which is a mistake from a mining standpoint—you must take out both kinds and blend it to get the whole that is needed—they have taken that out of the mines and left them in chaotic condition, but they have replenished none of the stores which are necessary in order to keep these mines in adequate operation, clothe the men and feed them, and so on.

And they paid the highest wages of any workers in Bolivia to the I think it was about \$4 a day, which in Bolivia is an awful

lot of money.

The CHAIRMAN. Thank you very much, Senator Tydings.

Mr. Tydings. I appreciate the courtesy.

#### TRANIAN NATIONALIZATION

Senator LANGER. Senator Tydings, my recollection is that when Iran nationalized the oil, our State Department took a hand in seeing that no other country bought that oil. You will recollect when they shipped some of that oil to some other countries after the oil was nationalized, that our State Department interfered, so that that oil was not paid for by the other countries.

Mr. Tydings. That is correct.

Senator Langer. In other words, they went all-out to protect-Mr. Tydings. In other words, Senator Langer, as I briefly stated here, the President himself said that we would look with disfavor upon the purchase of any of this oil until the matter was fairly adjusted.

But we are buying tin from these mines, our own Government is,

in contravention of that principle.

Senator LANGER. In other words, not only did our Government not buy it, but they tried to prevent other governments from buying it.

Mr. Typings. That is correct.

Senator Langer. I sympathize with you. I think the situation here is a criminal one.

Mr. Tydings. We only want a fair deal. We do not want to hurt Bolivia; we want to help her. We are entitled to elemental justice. That is the reason I am here.

Thank you, Senator Langer.

Thank you, gentlemen of the committee.

The CHAIRMAN. Thank you very much for your appearance. (Subsequently, the committee received the following article from Mr. Tydings for inclusion in the record:)

#### [American Metal Market, May 11, 1956]

LETTERS TO THE EDITOR: FAILURE OF NATIONALIZATION IN BOLIVIA

There are reprinted below a letter from the First Secretary, Bolivian Embassy, taking exception to our editorial of April 12, and a letter sent in reply thereto. Ed.

APRIL 20, 1956.

The EDITOR,

American Metal Market,

New York, N. Y.

DEAR SIR: The editorial, Confidence Must Be Earned, in the April 12, 1956, issue of the American Metal Market is only another in a series of vituperative attacks upon Bolivia and the Bolivian Government. A reply is necessary only to keep the record straight and to show clearly that your paper is and has been—for whatever reason—a propagandist for the most reactionary forces in the Western Hemisphere, the former operators of the tin mines of Bolivia, the notorious tin barons.

Typical of your distortion of the Bolivian situation is your reference to nationalization in 1937 of oil properties in Bolivia which were under lease to the Standard Oil Company of New Jersey. You attribute the nationalization "largely" to agitation of members of the "Ambassador's party," referring to the MNR party to which the Bolivian Ambassador to the United States, Victor Andrade, belongs and which now is in office in Bolivia.

The MNR did not come into existence until 1940. At the time the Standard Oil properties were nationalized David Toro was president of Bolivia. Mr. Toro, like most presidents of Bolivia over the past half century, was controlled by the tin barons. Today he is one of the bitterest enemies of the existing regime in Bolivia.

Moreover, you say in the editorial that the Bolivian Government "after 4 years in power, has yet to induce any enterprise of comparable responsibility to take up where that company left off."

The comment ignores completely the fact that the Gulf Oil Co., one of the great oil companies of the world, reached an agreement in March 1956, with the Bolivian Government for the development of oil properties in Bolivia and the financing of a pipeline. The expenditure contemplated by Gulf is far in excess of that spent by Standard Oil.

Surely, your paper knew about the agreement with Gulf—the news actually had appeared in your own columns—when you made the statement quoted above.

Most of your editorial is devoted to a denunciation of an address which Ambassador Andrade made at State College, Pa., when the Bolivian Government conferred a decoration on Dr. Milton Eisenhower, the President's brother. You state that the implication in the speech was that it was incumbent on the tin companies of Bolivia "to undertake the development of all the other resources of the country which he (the Ambassador) so glowingly summarizes. This is a new concept of the responsibility of enterprise."

Previously, you had said that, prior to nationalization, the tin industry had contributed about 75 percent of Bolivia's income and about 95 percent of its foreign exchange.

This, in itself, is proof that the tin barons dominated the economic life of Bolivia, and anyone familiar with Bolivian history knows that they also dominated Bolivia's political life.

Your inference then that the tin barons had no responsibility beyond that of running the tin mines and making money—much of which they immediately transferred abroad—is a most reactionary view of the private enterprise system. It is the view, incidentally, held by the Marxists, who charge that capitalism exploits the people and that strong capitalist nations always exploit weaker countries.

Fortunately, not all capitalists are as shortsighted as you and the tin barons. By and large, capitalism in the United States has been dynamic, constructive, and has shown itself cognizant of its social responsibilities. The United States, moreover, in its dealings with other countries, and in particular with Bolivia, has shown that it wishes to use its strength to help other countries and not to oppress them.

If I may say so, the American Metal Market's view of Bolivia and Bolivian affairs completely ignores the human element. For example, the tension between the workers in the tin mines and the owners of the mines in the 1946-52 period after the fall of the first MNR regime was very great. The puppet governments of Bolivia frequently used troops to repress the workers. Approximately 5,000 miners were shot down during this period.

The killing of workers because they protested against intolerable working conditions ended in 1952. It is true that the miners still are poor, but they prefer the MNR to the tin barons; now they have no fear of being machine

gunned by government troops.

The familiar charge of mismanagement of the tin miners since nationalization is reiterated by you. Your paper says that no other tin producing country has complained of declines in tin prices since 1952. If the tin producers in other areas look on the declines in tin prices with equanimity, why the systematic and sustained efforts for an international tin agreement which would have price stabilization as one of its major objectives?

Once again the American Metal Market points to inflation in Bolivia as proof that the country has retrograded since the MNR took over. To what then does it attribute almost equally severe inflation in a number of other

countries which did not nationalize tin mines or anything else?

In previous editorials the American Metal Market has cited the decline in tin production in Bolivia since 1952 as an indication of mismanagement. In 1951, Bolivia produced approximately 33,000 tons of tin at an average price of \$1.28 a pound. In 1955, it produced 27,670 tons of tin at an average price of 94.7 cents a pound.

Let us take a look at the operations of the allegedly efficient tin barons during a period of declining prices for tin. In 1929, tin prices averaged 45.19 cents a pound and Bolivia produced 46,338 tons of tin. In 1932, tin prices averaged 22.01 cents a pound and Bolivian production dropped to 20,583 tons, less than

half what it was in 1929.

It must not be forgotten that representatives of the tin barons told the RFC 3 or 4 years ago that they could not produce tin at a profit with a price less than \$1.50 a pound. Prices since 1952 have averaged less than \$1 a pound, and costs of production have risen steadily all over the world. Does the American Metal Market think that the tin barons would have mined tin at a loss since 1952, or would they have reduced production as they did in 1932?

Most of this talk of tin mine operation is academic in any event. The tin barons did not mine tin. The workers did it under the tin barons and they have done it under the Government. The methods of direction and supervision differ primarily in the fact that the miners have stopped almost continuous agitation and protests over working conditions, and they no longer fear for their lives.

The Metal Market's discussion of agrarian reforms ignores the serfdom of the peasants before 1952. It is true that farming in Bolivia still is no paradise, but the farm workers are not clamoring for a return of the tin barons. They think the future has some hope for them; and they had no hope under the old regime.

The American Metal Market—and the tin barons—never learn. Apparently they think that the Patinos, the Aramayos and Hochschilds will return if the Bolivian Government falls. They look backward to the days when the military kept the workers and peasants under control and the favored few lived in luxury.

and think the old pattern can be restored.

They should know better. Neither the tin barons, nor their representatives, can return. The fall of the MNR and the ideals which it represents can only bring chaos and conditions which, from the standpoint even of the American Metal Market, will be infinitely worse than the existing situation. The United States has shown statesmanship in supporting the Government of President Paz Estenssoro. This Government is a revolutionary one, and it intends to do away with the intolerable conditions which prevailed under the tin barons. Nevertheless, it is anti-Communist; it recognizes the dynamics of the right kind of private enterprise and has tried to create an atmosphere favorable to foreign investment. In addition to Gulf Oil, other well known United States firms are negotiating with the Bolivian Government for leases and concessions. Evidently they do not fear confiscatory expropriation.

It is indeed unfortunate that your paper lends itself to a campaign of misrepresentation which, however it affects Bolivia, is certain to discredit the American Metal Market.

Sincerely,

MARIO A. MONTENEGRO, First Secretary.

MAY 2, 1956.

Hon. Mario A. Montenegro, First Secretary, Embajada de Bolivia, Washington, D. C.

DEAR SIR: This will acknowledge the receipt of your letter of April 20, in which you refer to our editorial comment of April 12. You state that one of the reasons your letter is considered necessary is "to keep the record straight." As we know from experience, and have confirmed from our files, that what you purport to be the record is so grossly at variance with the facts, the following is written to help you achieve your purpose.

#### I. GULF AND STANDARD OIL

As for the Gulf Oil "agreement," we are aware that it was announced from La Paz as such, although it is as yet not an agreement but an expression of intent. It cannot be that you wish to convey the impression that all the requirements stipulated by this company have already been fulfilled by the Bolivian Government and that work is to begin without the performance of further required action by Bolivia. We are all familiar with "agreements in principle" which somehow fail to materialize in practice, and as several such agreements have been announced in La Paz in recent years, which have failed to advance beyond the imaginative stage, experience dictates that the complete acceptance of announced plans for any undertaking by a foreign company, in Bolivia, wait upon their being substantiated. Those who have reason to remember, rather than a desire to forget, the circumstances which led to the "nationalization" of Standard Oil properties nearly 20 years ago, vividly recall that one of the members of the Toro regime most active in ousting this American company from Bolivia was the incumbent President, Mr. Paz Estenssoro. Since he is the leader of the MNR, it would seem that we were not inaccurate in ascribing the agitation leading to the ouster to members of the "Ambassador's party."

#### II. EXPLOITATION BY "TIN BARONS"

You refer to our having mentioned that "the tin barons, employing some 20,000 in population of 3,500,000 persons, enabled the tin industry to contribute about 75 percent of the country's income, and about 95 percent of its foreign exchange." We were of the impression that this was a highly creditable performance and that, in putting an end to it, the MNR regime had "killed the goose that laid the golden egg." We suggested, moreover, that your implying that, in addition to all this, the tin companies were under some sort of obligation to develop "all the other resources of the country \* \* \* is a concept of the responsibility of private enterprise." You comment that our "inference that the tin barons had no responsibility beyond that of running the tin mines and making money—much of which they immediately transferred abroad—is a most reactionary view of the private enterprise system."

This is a most interesting observation, coming from an accredited representative of the Bolivan regime which is seeking to induce capital to risk its safety in Bolivia today. Does the present regime intend to insist that, in addition to bearing taxes such as were exacted from the tin companies in bygone years, it will expect any new money, venturing into Bolivia under such a philosophy of "private enterprise," also to finance the development of the country's other resources and abstain from withdrawing funds as income on their new investments? This is a point we believe should be cleared up before new investors may be misled by your novel interpretation of the responsibilities of private enterprise.

It is worth recalling, while on this subject, that a public accounting by the Aramayo interests of its Bolivian operations over the 23-year period, 1929-51 inclusive, showed that the total of export, profits and dividend taxes paid in Bolivia amounted to 17.1 percent of the value of minerals sold; that such taxes,

plus reinvested amortization, depletion and profit reinvested in Bolivia made a contribution to the Bolivian economy of 34.2 percent of the value of the minerals On the other hand, cash distributed to shareholders abroad amounted to only 9.4 percent of the value of minerals sold! Is it this 9.4 percent which you would have compelled the group to have reinvested to develop other natural resources of the country, and, if so, what would you construe as a fair return for the owners to have withdrawn on their investment? This percentage on sales actually represented a return of only 5.5 percent on the average working capital invested. It would certainly be helpful to potential future investors to know if this is regarded as a manifestation of "a most reactionary view of the private enterprise system."

In the case of Patino, the records show that in the 5 years 1947-51 inclusive, gross sales of tin aggregated \$115,211,988; and that during these years no less than \$69,311,145 had to be delivered to the allegedly friendly government of Bolivia in order to obtain sufficient bolivianos to meet operating expenses and taxes inside Bolivia. The cost of operations were artificially increased because this allegedly friendly government insisted on conversion at the rate of 42 bolivianos (for 3 years) and 60 bolivianos (for 2 years) to the dollar, when the free rate for bolivianos was between 150 to 200 to the dollar. Taxes paid in Bolivia during this same period were the equivalent of \$32,355,655, or no less than 28 percent plus of the gross sales! This against the 7.2 percent (\$8,298,350) that was allowed to remain abroad for dividends! You characterize such a

rate of remittance as "much of which they immediately transferred abroad."

Again we ask, for the benefit of potential future investors, if such operations are to be regarded as exploitation of the country, and whether remittances such as these are to be declared excessive and not allowed? If so, will such investors be expected to operate their properties as the mines are now operated, at a tremendous and unnecessary loss, in the expectation that the difference will be made up by the United States Treasury?

#### III. PRICE ADEQUATE ELSEWHERE

With reference to our assertion (which is correct) that no other tin producing areas are complaining of the alleged fall of prices since 1952, you ask why, if such tin producers "look on the decline in tin prices with equanimity" they seek an international agreement "which would have price stabilization as one of its major objectives."

Obviously you confuse relative price stability with high prices. agreement, which may soon become effective, is not the first but the fourth such agreement having "price stability" as one of its major objectives, tin being one of the most volatile commodities marketwise. That this, and not exorbitantly high prices, is the primary objective of the agreement is self-evident in its provisions for the management of the so-called buffer stock. The provisions require the manager to buy tin when the London price falls below £640 (80 cents); they authorize him to buy, at his discretion, between that price and £720 (90 cents). They permit him to sell when the price is between £800 (\$1) and £880 (\$1.10), but he must sell if the price exceeds £880 (\$1.10).

These provisions are diametrically opposed to the Bolivian interpretation of what constitutes a "fall in the price of tin," which appears to be anything below the price of \$1.211/2 which prevailed for 14 months following the April revolution. For the manager has discretionary authority to sell when tin crosses \$1 (which you stigmatize as a low price), and order him to sell at above \$1.10. Moreover, when the price is between £720 (90 cents) and £800 (\$1), which is where it now is and has been for 15 months, the manager is ordered to take no action without Council authority. If these provisions mean anything, they mean that the parties to the tin agreement regard a price between 90 cents and \$1 as entirely satisfactory. Yet you reiterate interminably that such prices are low and are the cause of Bolivia's present distress. The provisions also mean that the prices which you claim to be necessary, above \$1.10, would never have been attained if the tin agreement had been in effect in 1951-53, unless the entire buffer stock had previously been absorbed. Therefore, we repeat with entire justification, that no other tin-producing area is complaining of the fall in the price of tin.

#### IV. WILD INFLATION

We did point to the wild inflation that has taken place in Bolivia since the MNR seized the Government as evidence that the economy of the country has retrograded. For some time before the revolution, a government you charge as being partial to the tin companies had compelled them to accept 60 bolivianos per United States dollar (when the actual rate was 180 or 200). But the rate when we wrote on April 12 last was some 5,800. Wherein does such evidence of irresponsible administration and avoidable economic collapse exist in a country which professes to offer opportunity for private enterprise and invites investment?

#### V. \$1.50 PRICE INCLUDES 54-CENT TAXES

You assert that "the representatives of the tin barons told the RFC 3 or 4 years ago that they could not produce tin at a profit with a price less than \$1.50 a pound." We have seen this allegation made on numerous occasions, and the record proves it to be as ill founded as the excuse that the collapse of the tin industry under the MNR is attributable to the fall in the price of tin.

American Metal Market carried the text of the Bolivian Government's memorandum to the United States tin mission, in which it asked for a price of \$1.50 per pound for tin, in August 1951. This was during the Korean war inflation. This price was, however, as you must well know, rejected by the RFC, and while our Government controlled tin importations the ceiling for all tin was \$1.21\%. But it is wholly false to charge that this price was asked to make a profit. The memorandum itemized the components of the \$1.50 price and showed that tin could be produced, before taxes, for 78 cents. It allowed 18 cents for reinvestment and dividends, making the total cost and profit before taxes, 96 cents. What raised the price to \$1.50 was the unrealistic provision for 54 cents a pound for Bolivian taxes.

It is interesting to recall, too, that taxes rose with a rise in price, and the then United States Government refused to concede the equity of such a practice or to finance it. The tabulation shows the tax to be 36 percent of the desired selling price, but it actually amounts to 56½ percent of the combined cost of operations and provision for reinvestment and dividends. If such requirements are to be regarded as deflecting partiality toward the tin barons on the part of the then Government, as you infer, you might try offering such terms as inducements to attract new undertakings to Bolivia.

It is also pertinent to observe that, however unrealistic the proposal of a \$1.50 price for tin may have been, it did provide for the Bolivian Government's receiving 54 cents a pound in taxes. Today, after having wrecked the mines through lack of maintenance, it is admitted that the cost of production alone exceeds \$1.50, and that even this price today would leave no balance for reinvestment and dividends or for taxes. Wherein does the fall in the price of tin reflect such moustrous inefficiency in the administration of properties which once were the main support of your Government?

support of your Government?

There is no parallel between conditions prevalent today and those of 1932 to which you refer. The whole world—except Bolivia—has been and presently is, in the midst of a great economic boom. The depressed conditions prevailing in 1932 throughout the world are known to nearly everyone. The gross national product of the United States fell from \$103.8 billions in 1929 to \$58.3 billions in 1932. Tin consumption fell from 184,000 tons to 105,000 tons in the same period, and tin production fell not only in Bolivia but throughout the world. However, it is only fair to recall that, even in the depths of the depression the Bolivian tin properties still paid taxes, and that they did not have the Treasury of the United States to subsidize full operations, as is the case today.

#### VI. "THE WORKERS DID IT"

You assert (if I may say so, with the sophistry which is accountable for 80 much of the disillusionment and misery in the world today) that "talk of tin-mine operation is academic in any event. The workers did it under the tin barons and they have done it under the Government. The methods of direction and supervision differ primarily in the fact that the miners have stopped almost continuous agitation and protests over working conditions."

Admittedly, the methods of direction and supervision differ. One conspicuous result is that the mines no longer support the Government, as they once did, or provide the country with its foreign exchange; they now produce growing deficits which the United States Treasury is asked to make good. From your point of view, the primary difference may be the absence of protests over conditions from the miners. This may well be. The protests now come from the President of Bolivia and they are directed against a decrease in the workers' productiveness, lack of discipline, and no appreciation of their responsibilities; they are against

a certain atmosphere of euphoria. And the Minister of Mines has instructed

the managers to operate the mines as if they were private enterprise.

Doubtless such views are reactionary but it can hardly be denied that they are correct. The tragedy of the situation is that the miners are now being abused for having believed in the drumfire of false propaganda that was dinned into their ears when they were protesting against the working conditions that were the best to be found in Bolivia.

#### VII. AMM FORECASTS PRESIDENT ESTENSSORO'S LAMENTS

American Metal Market has followed developments in Bolivia since the spring of 1952, as it did in previous times, because it is a newspaper serving the metals It has opposed the implementation of the program of the MNR because, as an American publication, it subscribes to the principle that no person (or company) should be deprived of property without just compensation. does not believe in the confiscation of private property. As a supporter of the free-enterprise system, it is opposed to the nationalization of industries, believing that, aside from matters of principle involved, it is doomed to failure, especially when it encroaches upon the field of such complex ventures as the mining of tin. It urged that the Bolivian Government refrain from this disastrous course, and in editorial comment on April 22, 1952, and May 22, 1952 (copies of which may be obtained), forecast with no little accuracy that present deplorable conditions would inevitably result from this course. If the Bolivian Government in 1952 had been guided by such reason, instead of by emotional enmity, we would not find the President of Bolivia commenting as recently as April 9 on the failure of its course, in these critical terms:

"The Corporation Minera has been unable to adjust its procedures, and is not functioning correctly; it has not achieved the stature to fulfill its historic

responsibility.

"At the same time we should mention the question of discipline in the work of the miners. Their output was much greater when they were working under the torturers than when they work for the revolution. This is a pitiful thing

to say, but it is the truth.

"This factor is very serious because it is connected with two other factors which are partly outside of our control, but partly our fault. We lack technicians and capital for exploitation. Technicians are needed to direct the work, and capital is needed to modernize our installations, because our machines are growing ancient. Technicians don't want to come to Bolivia if the chaotic working situation continues; and we will not find capitalists who want to lend us money for mine exploitation when there is a lack of discipline in working conditions. Because the government of the revolution which is people's government cannot resort to the practices of the governments which served the corporations, we have only one course, to appeal to the conscience of the mine workers. Our comrades, Lechin and Torres, have done this frequently, to the point of risking alienation of the workers who are their chief support, but the results have not been completely satisfactory."

Nor would the United States Treasury be called upon to bear the financial

cost of so senseless a blunder if ordinary foresight had been exercised.

In the foregoing we have refrained from references to your irrelevancies. You will find, however, that our discussion of actual occurrences is in conformity with the record and if at any time you should desire to obtain factual information on the subject of tin and its production we shall endeavor to oblige.

Very truly yours,

FRANK SMITH. Editor.

The CHAIRMAN. Mr. Javits?

Mr. Javits, you may proceed in your own way; and if you wish to answer any questions while you are making your statement you may do so, or you can finish your statement before answering the questions.

Mr. Javits. Well, it depends upon what the Senators would like.

If they want to interrupt me, it is quite all right with me.

The CHAIRMAN. Thank you, sir. You may proceed.

Mr. Javits. Thank you.

## STATEMENT OF BENJAMIN A. JAVITS, PRESIDENT, WORLD DEVELOPMENT CORP., NEW YORK CITY

Mr. Javirs. Gentlemen of the committee, my statement is as follows, and I will interpolate from time to time:

#### PRIVATE ENTERPRISE

Private enterprise, which I call consumer's capitalism, in America has been a smashing success. We have proselytized it and have asked other people to accept it on faith. Yet, when providing foreign aid or development funds, we have invariably done so in precisely the same way the Russians have done it—by government. This is a contradiction, inconsistent with what we say we believe in—private enterprise.

There is a place for governmental efforts and for governmental financing, but not in the forefront of a private enterprise capitalist effort, which in our case should be a world development crusade.

#### NEED FOR PROPOSAL TO ELECTRIFY PEOPLES OF WORLD

Now, what is needed now is a proposal which will electrify the peoples of the world, by allowing public participation and commanding public interest and understanding, in much the same way that warbond drives once did.

You will remember during the war that the people, the people's money was mobilized for victory in war. It must be done for victory in peace, and I mean directly from the people.

It is true that the financial and business communities are moving now toward realizing the possibilities of expanded foreign investment, but this may ment is unprescripted and foreign investment,

but this movement is unorganized and far too slow.

It is time that the peoples of the world were mobilized for investing together and in each other to finance vitally needed world economic development. Such a peoples' attack on world economic problems could build and sustain prosperity indefinitely, insure full employment for decades to come, open up markets for world surpluses, raise living standards everywhere, and significantly further the prospects of permanent peace.

How to do it, of course, is the question.

But I believe such a program can be organized successfully on a straight business set of principles consistent with our economic philosophy, to return reasonable profits to investors and at the same time to bypass many political problems involved in purely governmental aid.

In the late thirties, we knew we had to prepare militarily, but we did not do anything about it much until it was almost too late. It was only when the country was electrified with a 50,000 airplane slogan that we began to move.

We know that almost the same idea and the same approach must be done now. We have to pick up the globe and ask ourselves how much capital investment it would take to develop the whole world to

our own level.

I estimate it will take \$2,000 billion to begin the job. It may take 10 or 15 years. It will take that amount of money to insure here and

start everywhere the high prosperity we enjoy in this country, and to improve it from year to year.

The great scale of economic development in this country makes it

an absolute necessity to carry the rest of the world with us.

In the 1929 era, we saw that the United States could not be prosperous without the rest of the world also being prosperous. So what we do today abroad, and it must be done in a very substantial measure to be effective, is insurance for our own state of well-being tomorrow.

I want to recall two episodes to you in the 1929 era. One was the going off gold by England in 1931, and the torpedoing of the Mon-

etary Conference in London in 1933.

In practically every effort to establish peace in the world, a major point has been overlooked, that is, that the peoples of the world must be given hope for tomorrow, and the promise that a better life will be In fact, I believe that hope in many cases comes ahead of attained. bread.

Mere words, whether religious, political, or diplomatic, and infernal machinery of destruction, military, cannot fashion a permanent peace. The cooperative efforts of the peoples of the world investing together in world construction can fashion and preserve it.

You gentlemen have before you a rough draft of a proposed bill which will be worked into more practical shape during the next few

months with various legislators and economists.

#### AN INTERNATIONAL DEVELOPMENT CORPORATION PROPOSED

In this bill, I have proposed that the United States underwrite an International Development Corporation which can eventually have sufficient capital to make a real dent in world development, about \$125 billion or more. It could begin as a Government-sponsored agency initially started with a hundred million dollars, which would be raised by the issuance of a class A voting stock to the United States Treasury.

While it would need an underwriting of \$25 billion over a number of years, a public issue of 5 billion shares of class B nonvoting stock would be sold in the United States and abroad, equivalent to \$5 per When 2 billion shares of the class B stock had been sold, the corporation would then retire the Treasury class A stock and indebtedness, and repay our Government outlay right down to the last cent, thus becoming a private company with voting rights publicly held in the class B stock.

Millions of Americans and foreign investors would buy into this corporation as shareholders, and our Government could then get out of the business of giving things away and being a rich and resented "patsy."

Incidentally, I may add here that there are two terrific candidates for the job of head of a corporation of that type. If Senator George would be interested, he would make an ideal chairman of the board; and Mr. Monet, of France, would make an ideal president.

I am not just talking words or impracticalities. For more than 15 years I have been exploring this idea of peace by investment. I have written a book by that title, and I believe most of you Senators have received copies of it, and I have a copy of it here.

And I have discussed the idea with many public figures all over the world. I am satisfied, as a matter of fact, that this stock can be sold all over the world. As a matter of fact, leading industrialists and bankers in various parts of the world have assured me of that.

The concept of a private investment on such a vast scale may seem startling because it has not been popularized, but the idea is by no means impractical and by no means new. That very idea built the United States to where it is today. The Goulds, the Harrimans, and the Vanderbilts got foreign capital, and with this foreign capital took the first great step toward what we have today in the form of the great economy we now enjoy.

For the past year and a half, I have had a research staff looking into all aspects of foreign development by private enterprise. Specific plans have been developed for pilot operations in Asia, Africa, and the Middle East, which can be the nucleus for such a vast develop-

ment project in which the public can directly participate.

It would be my purpose, it would be in the interest of the American people, to directly deal with people like Rootes of England, Pirelli of Italy, Manesman of Germany, Bodosokis of Greece, Grimm of Austria, Azkaptan of Turkey, and people of that type.

#### PERFECTING THE PROPOSAL

I would be the first to admit this idea has not been perfected. This is why it is of the utmost importance that all of you concerned with foreign-aid problems should give some thought now to such a plan, and to envision clearly in your minds private investment possibilities, and to help mobilize public opinion to support such an all-out effort for world construction and reconstruction.

I ask you to consider the role which private enterprise, consumer capitalism, must increasingly play in the solution of the major prob-

lems and challenge of our times.

I ask you to consider and to perfect as best you can my proposals for machinery which can effectively do the foreign development job, and to listen also to ideas of others along the same lines, because in my conversations with many legislators, private conversations, of course, practically all of them wish for the day when the Government could get out of the foreign-aid business.

#### REQUIRED FINANCING

The inevitable question arises: Where is the money to come from! Certainly the initial \$100 million to temporarily underwrite the or-

ganization of the proposed corporation is available.

First, a study of allocations over the past several years indicates that this \$100 million figure is quite routine. There is a Presidential fund having such an amount. Another such fund is available for Asian economic development, and there are further recommendations for similar funds now pending before the Congress.

A hundred million dollars in Washington, of course, is not an amount which is going to frighten anybody. But while the moneysaving mood is upon you, may I suggest just one possible area from which funds for the launching of this development corporation might

be drawn.

This is the area of the military. Some billions of funds have already been allocated for military aid, and which are unused. I re-

spectfully suggest that you may consider diverting only momentarily this intial \$100 million from these unused military funds into the more constructive channel of world development, as I have outlined it

to you here.

May I add also at this point, I am strongly for spending even more for military preparation and defense than we are spending now. But this would be one way to prove to the world our sincere desire to turn the world from war and to direct the flow of money from destructive to constructive purposes, thus reflecting world demand and our own deep-felt desire for world security and peace.

In closing, let me repeat just one point: We owe our prosperity to consumer capitalism, private enterprise, which is a capitalism unlike any other in the world. This same system which has built us can

build prosperity for the rest of the world, too.

I have here, of course, some copies of a prospectus on the World Development Corporation, and also some copies of a memorandum on how, in various parts of the world, certain projects can be started which would give actuality to this idea.

I shall do my best to answer any questions which you may have on

this proposal or on foreign aid generally.

I do want to thank you for your attention.

The CHAIRMAN. Thank you very much, Mr. Javits.

Any questions, Senator Green? Senator Green. No questions. The CHAIRMAN. Senator Smith?

Senator Smith. I would like to ask Mr. Javits if he is the brother of Jack Javits who used to be here in the House of Representatives.

Mr. Javits. Yes. You and I met-

Senator Smith. I thought we met; did we not?

Mr. Javits. In Chicago, yes.

Senator Smith. Yes.

Mr. Javirs. At the convention, that is right.

The CHAIRMAN. Any further questions? Senator Smith. I gather that your plan is a multilateral plan of the largest possible dimensions.

Mr. Javits. That is right, it is.

Senator Smith. A private business enterprise, a multilateral plan, is

the gist of what you are suggesting?

Mr. Javrrs. That is right. Of course, when you think in terms of a world peace, and think only in terms of comparatively a few billions of dollars, and then think of what you have to do when you really get on a world effort, and that world effort in the dimensions of a war cost, two or three thousand billions, you begin to see that getting a world peace that means anything is going to cost a lot of money.

It may not cost anything, as a matter of fact. It is the investment of a great deal of money; whereas war costs money. And my plea is for a large enough fund for investment and not for expenditure. It

is quite different.

But unless the Congress and the people of this country begin to think in terms of huge sums for world investment, such as we had to have in the development of our own country, there isn't really much hope for a permanent peace on a basis which will be consistent with the kind of world we have built here and which is the kind of world we want to build abroad.

Senator SMITH. Have you worked out in your plan a way by which the private investor is going to be protected against possible confiscation of property?

Mr. Javits. I have.

Senator SMITH. Things like Senator Tydings was referring to this morning?

## PROSPECTUS ON THE PROPOSED CORPORATION

Mr. Javits. I have. I have it right here, as a matter of fact. It is a prospectus on this World Development Corporation, assuming that it would be an actuality. It would be divided into three parts.

Assuming that \$25 billion was available, it would have about a third of it in an insurance company which would insure the American investors and other private investors against every form of confiscation or loss on the private investment basis. It would not insure against management deficiencies, but would insure against these governmental acts and acts of God, whatever it might be.

A third of the funds would be used for investment in companies

A third of the funds would be used for investment in companies that are largely foreign-operated companies, that is, having large foreign agencies, so that you would not have to duplicate organiza-

tional setups.

For instance, large investments of a corporation of this type would be in companies like IBM, like Phillips of Holland, like Royal Dutch,

or like Ford Motor, like General Motors.

Then a third of it would be for direct investment in equity situations everywhere. So it would be more or less a tripartite operation, and would be a much larger insurance capital fund than anything, I am sure, that the Senate or the Congress at the present time would be interested in setting up, although I know there is in one of your foreign-aid bills a provision providing for, I think it is, a \$300 million insurance fund; but even there, I don't think you have insurance against civil insurrection, as I recall it.

Senator Smith. Would you include Russia in the plan?

Mr. Javits. Yes, I would, provided they accept a great many additional attributes of the capitalist system, which they have already adopted but which they deny.

Senator Smith. That is all I have, Mr. Chairman.

The CHAIRMAN. Senator Langer?

### MR. JAVITS' BACKGROUND

Senator Langer. Mr. Javits, I am very much intrigued by your

plan. Would you give us your background?

Mr. Javits. My background? Well, I am an East Side New York boy, brought up under most adverse circumstances; a radical in my youth, and found out that when Ford came out with his \$5 a day and 8-hour day program in 1914, that I was wrong; that the so-called capitalist was only a bit removed from the workingman, because the Ford doctrine completely destroyed the Marxian doctrine, because it cut the very base of the whole Marxian idea, which said there were two classes, one exploiting the other. Well, Mr. Ford proved to me that he was interested in getting a lot of customers, and that his customers were the people who worked.

And from then on, I tried to synthesize American doctrine, and I wrote a book called—I can't think of it at the moment. I wrote my own book, but I can't think of it. I will give it in a minute—The Separation of Industry and the State. It was a plea for the kind of capitalism which we have developed in this country.

This was in 1936. I had written a previous book, in 1927, called

Make Everybody Rich—Industry's New Goal.

I then practiced law, in which my brother joined me, who is now the attorney general of New York, and was a former Congressman here. And I have been interested in foreign affairs, particularly since 1940, since we got into the war, because I had a very close friend down here who wrote a foreword to this book, Peace by Investment, and with whom I was in constant touch while he was one of the top men of the War Production Board, a man who is well known to you. He was the former head of the General Electric Co.

And as a result of those conversations during the war, it appeared to us and to me that there was only one way in which to get a permanent peace, and that was through the means of peace, and not either through politics specifically, or through diplomacy or through sweat or ethical word or through military preparation. It was on the basis of trade and business, and the contact, direct contact, of one peoples with

another.

The title of that book is a Commonwealth of Industry.

Senator Langer. Mr. Javits, had you discussed this plan with John Burroughs, Henry Ford, Thomas A. Edison, and Harvey Firestone? Mr. JAVITS. Yes, sir—did I discuss it?

Senator Langer. Yes, in 1936.

Mr. Javits. No; I didn't discuss it with them at all. I was in correspondence with some of the Ford people. As a matter of fact, at one time I handled an antitrust case for the Ford Motor Co.

Senator Langer. Well, you recollect in 1936 those four gentlemen

had a plan somewhat similar to yours, did they not?

Mr. Javirs. They had a plan which—I don't recall now just what it was, but I do know, of course, those men, all those four men, were friends and that they were seeking a way by which the processes of the American economy could be translated into the field of foreign development.

But I don't think the world was quite ripe for either their idea or

for any idea of that kind at that time.

Senator Langer. No more questions, Mr. Chairman. The CHARMAN. Thank you very much, Mr. Javits.

Mr. Javits. Thank you.

The CHAIRMAN. Mr. Twitchell?

You may have a seat, and will you give us your name and address

Mr. Twitchell, K. S. Twitchell, Byram, Conn., mining engineer.

The CHAIRMAN. Have a seat.

You may proceed with your statement.

Mr. Twitchell. Thank you.

The CHAIRMAN. We have quite a number of witnesses today, and we would be glad if you would make your statement brief and to the point.

Mr. Twitchell. Thank you.

## STATEMENT OF K. S. TWITCHELL, MINING ENGINEER, BYRAM, CONN.

Mr. Twitchell. Mr. Chairman and members of the committee, my statement will be on the other side, on the receiving side. I have traveled and worked in the Middle East countries since 1927 as a mining engineer, and I feel I have a fair understanding of the general attitude of the inhabitants, largely Moslems.

Perhaps it is too simple. I found that, irrespective of color, language, and religion, they are very much like ourselves. They are independent and not subservient; they are ready to accept and carry out ideas when they can see an adequate reason for such being bene-

ficial to them.

But, if told they are backward and that methods and things are so much bigger and better in United States, they resent this attitude. They will carry out directions if asked to do so, but are apt to balk if brusquely ordered.

One cannot buy with money friendship which is a lasting friend-

ship.

#### NEAR EAST FOUNDATION

The Near East Foundation in Iran, Greece, and Syria, for example, has done an enormous amount of good by raising the standards of crops, by better seeds, equipment, and methods, by actually operating farm plots alongside the established ones.

The physical examples of greater efficiency impress and teach people more effectively than many books and lectures alone. But, such information with a practical, everyday demonstration, has gradually raised the living standards in those countries.

This is the Near East I am talking about.

#### AMERICAN MIDDLE EAST RELIEF

The self-help project of the American Middle East Relief at Marjiyoun, Lebanon, has done a great deal to alleviate poverty and create friendship and good will toward our country, America.

The expansion of these and such similar projects would be most valuable in combating communistic efforts, and the cost would not

be great.

## SHARING ADVOCATED, NOT OUTRIGHT GIFTS

The sharing of the expenses of building schools, hospitals, and perhaps examples of simple farm buildings is, and would be, appreciated and increase American prestige.

I say "sharing." Just giving outright is never thoroughly ap-

preciated, in my experience.

From 1927 to 1932, I made gifts in Yemen, Arabia, and in Saudi Arabia, on behalf of the late Charles R. Crane. In Yemen the only developed and productive gifts were roads and a bridge, a highway bridge. In these two projects the recipient government contributed the labor, and a permanent benefit has resulted. But the agricultural implements, pumps, and so forth, were free gifts, and practically nothing has resulted, because they were free.

Moral: The recipient made no effort.

In 1953, the present Yemen U. N. delegate, Prince Hassan, asked my advice on various dam sites for irrigation projects in Yemen. are practical. Help here might be appreciated, and there would be sharing by the labor of the government.

On the other hand, in Saudi Arabia from 1931 to date, whenever my advice and help were requested, I gave my services; but the

Saudi Arab Government furnished materials and labor.

The several beacons, lighthouses, on the reefs in the vicinity of Jedda on the Red Sea are an example of this type of work. This was done

before the present enormous revenue from oil was developed.

Even at the early period of 1935 to 1938, Aramco, Arabian-American Oil Co., did a great many favors freely for the Saudi Arabians. But such were not appreciated any more, I believe, than those done by me on behalf of the Saudi Arabian Mining Syndicate, on a smaller scale, but in which the recipients, the Government, participated in the expenses and effort.

It is simply human nature that an independent character resents alms, especially when the giver shows condescension, as some Americans are reported to have done, and shows an attitude of superiority. I think we Americans and Near Easterners have identical feelings in

this respect.

In the Bekaa Valley, Lebanon, I saw a beautiful, up-to-date American-type poultry house built of cut stone. Nearby was an equally up-to-date dairy barn with mechanical milking equipment, modern

stanchions, and silos.

All this work was an excellent example of modern American practice. But in America, it took us generations to reach that stage. So it is not surprising that the local Lebanese farmers were somewhat resentful and considered this was a rich America boasting of her superiority to poor Lebanon, who could not afford such installations.

I know this was not intentional. One has to know local conditions

to make assistance generate friends instead of enemies.

The above example has proved a boomerang, which it is very prob-

able the Communists are exploiting.

Another example, on the contrary, in another village, Kamieh, a fine schoolhouse was nearing completion. The Lebanese Government had furnished about 50 percent of the expense, and our point 4, 50 percent. This project was greatly appreciated.

#### PROJECT CRITERIA

In my experience, the criterions for every project, every gift, would be:

Is it needed?
 Does it raise the standard of living?

(3) Can the recipients—governments and people—share in the effort of the development of the project? Even a small percent of sharing is much better than none.

(4) Will it provide employment for the nationals?(5) Except for irrigation plannings, the projects should be in small units as far as practicable so that the nationals can more easily and rapidly develop and operate them.

A big snowdrift is made of many snowflakes. The same way in our foreign-aid program, it seems to me we should have small units where practicable, but many of them, spread all over where they can be

seen by many, many people.

Agricultural projects, including irrigation, are, in my opinion, of the No. 1 importance. Unless people can be adequately fed, they care little for education or sanitation.

The Arabian-American Oil Co. has made as nearly a perfect example of assistance to the country in which it operates as any foreign company can do, and it is appreciated. But, there is the handicap of some unfriendly people saying, "It is our country's oil, and the foreigners are taking it away."

Simply treating the Middle East as equals and as we would wish them to treat the United States of America, and helping them to help themselves, is, I believe, the key to having them on our side instead

of behind the Iron Curtain.

In conclusion, I wish to emphasize another angle of our Government's efforts in the Middle East.

## LACK OF CONTINUITY IN ASSISTANCE PLANS

The lack of continuity in our plans of assistance has led to distrust by the recipients and lack of confidence in the United States Government.

Naturally, other nations, like Great Britain with their long-range planning, receive correspondingly increased prestige and appreciation.

If the longer-range planning as now advocated can be firmly established, I know that American influence will be greatly furthered.

The example of the short-range, hand-to-mouth system was sadly demonstrated in Jidda some years ago, about 1942. A very welcome and much-needed medical clinic was established by the United States Government. Good quarters were rented, excellent equipment including X-ray, were installed, and a fine American staff consisting of a doctor, radiologist, and nurses, and Arab staff, established.

The Saudi Government, its nationals and the foreign population, were all greatly impressed and the project immensely appreciated

by everyone.

This functioned most satisfactorily for 1 year, 1 year only. Then no further appropriation was made, and the project was liquidated.

The smaller, but permanent, British clinic profited by obtaining—purchasing, I believe—some of the supplies and equipment, and acquired increased influence by the continuity of its services.

The Saudi Government and nationals, especially the poorer ones, were intensely disappointed. American prestige suffered a severe

drop.

It is far more effective to do a little continuously than to foster spec-

tacular projects and then let them drop.

It is to be sincerely hoped that present plans for foreign aid will be made for reasonable lengths of time, or to a completion of the projects.

I thank you.

The CHARMAN. Thank you very much. Any questions? Senator Smith.

Senator Smith. No questions.

The CHAIRMAN. Thank you very much.

Senator Douglas, we presume you have other engagements, like all Senators now, and we will be glad to hear you out of order.

Senator Douglas. Thank you, sir.

# STATEMENT OF HON. PAUL H. DOUGLAS, UNITED STATES SENATOR FROM THE STATE OF ILLINOIS

Senator Douglas. Mr. Chairman and members of the Foreign Relations Committee; first of all, Mr. Chairman, I wish to thank you and your committee for your courtesy in granting me an opportunity to appear here and to testify before you today.

As the course of action which I shall advocate and support is easy to understand, I will not take more than a few minutes of your time,

unless members have questions which they wish to ask.

## PROPOSAL TO ESTABLISH A "FREEDOM ADMINISTRATION"

I am here, Mr. Chairman, to propose that an amount equal to onehalf of 1 percent of the foreign aid funds from each annual appropriation be earmarked for the purpose of keeping freedom alive in the

now-subjugated countries behind the Iron Curtain.

In particular, I refer to countries held captive by Russia, namely, Lithuania, Latvia, Estonia, Poland, Czechoslovakia, Albania, Bulgaria, Hungary, and Rumania, although not excluding others. In addition, Mr. Chairman, I am proposing that the Congress recommend—and authorize where necessary—the use of certain counterpart funds, and also funds credited to the United States by foreign countries under section 550 of the Mutual Security Act of 1951 and section 402 of the Mutual Security Act of 1954, for the purpose of keeping freedom alive in these countries.

These funds, Mr. Chairman, would be used to create and establish an independent agency of the Government, directly under the President, to be called a "Freedom Administration." This Freedom Administration would allocate the funds provided to approved national Freedom Committees for the following purposes, among others:

1. To maintain and to expand broadcasting activities to the en-

slaved peoples of Iron Curtain countries.

2. To expand existing programs of correspondence to subjugated peoples for the purpose of keeping alive the spirit of freedom and resistance.

3. To aid other programs by national groups, such as the printing and distribution of pamphlets and information, to keep freedom and

hope alive in the enslaved nations.

4. To finance programs to encourage and aid those who, at the risk of life itself, flee or have fled to the free world from the Communist world, and to offset the Communist drive to get these refugees to return to their original countries.

5. To give monetary support to resistance groups which aim at

eventual independence of now satellite nations.

6. To publicize the names of those democratic leaders of the Iron Curtain countries who still remain in jail or work camps so that the world may know their fate and their struggle.

7. To assist in promoting and maintaining other programs which aim at the eventual freedom of enslaved peoples. And I may say,

in this respect, that by providing adequate assistance to an agency and a staff of competent people, many other effective methods and ways may be found to further this cause.

#### CAMPAIGN PLEDGES OF THE ADMINISTRATION

Mr. Chairman, there is certainly ample reason to believe that the program I am advocating meets both the spirit and the letter of the pledges solemnly made to the American people in the 1952 Presidential campaign. I am not advocating a program to which, by any clear use of the English language, the present administration is uncommitted,

I am hopeful the administration will welcome with open arms this

proposal to help them carry out their solemn pledges.

In an article in Life magazine on May 19, 1952, Mr. John Foster

Dulles wrote:

Consider the situation of the 20 and odd nonwestern nations which are next door to the Soviet world. \* \* \* Today they live close to despair because the United States, the historic leader of the forces of freedom, seems dedicated to the negative policy of "containment" and "stalemate."

But liberation from the yoke of Moscow will not occur for a very long time, and courage in neighboring lands will not be sustained, unless the United States makes it publicly known that it wants and expects liberation to occur.

And he continued, in the same article:

The mere statement of that wish and expectation would change, in an electrifying way, the mood of the captive peoples. It would put heavy new burdens on the jailers and create new opportunities for liberation.

Mr. Chairman, I have a photostatic copy of this article by Mr. John Foster Dulles, which I will make available for anyone who wishes to go back in history.

Also, in the Republican Party platform of 1952, there was this statement, on page 6, as distributed by the Republican National Committee:

The policies we espouse will revive the contagious, liberating influences which are inherent in freedom. They will inevitably set up strains and stresses within the captive world which will make the rulers impotent to continue in their monstrous ways and mark the beginning of their end.

You will recall, Mr. Chairman and members of the committee, that the chairman of the committee who wrote this section of the Republican Party platform in 1952 was the present Secretary of State, Mr. John Foster Dulles.

Speaking before the American Legion convention on August 25, 1952, Candidate Eisenhower had this to say:

We must tell the Kremlin that never shall we desist in our aid to every man and woman of those shackled lands who seek refuge with us, any man who keeps burning among his own people the flame of freedom or who is dedicated to the liberation of his fellows.

My proposal, Mr. Chairman, would help make it clear that the United States-

never shall \* \* \* desist in our aid to every man and woman of those shackled lands who seek refuge with us \* \*

Mr. Chairman and members of the committee, you probably read in this morning's copy of the New York Times a very authoritative article from the refugee camps in Germany, which stated that the lot of the refugees who fled from behind the Iron Curtain was nearly hopeless; that they were treated very badly; that the food was scanty; that there were few opportunities for employment; there was almost no opportunity for integration in the German people; and that almost

no opportunity for emigration from Germany existed.

So that they are confined to these camps, over 200,000 of them, and the Russians are encouraging defections; and that at present the number who are returning to the Soviet countries, among the Poles and the Czechoslovaks, exceeds the number who are currently fleeing from behind the Iron Curtain. The majority of refugees at present, according to this article, come from Yugoslavia.

I shall place this article in the Congressional Record this afternoon. (The article referred to appears on p. 7064 of the Congressional

Record of May 10, 1956.)

Senator Douglas. Mr. Chairman, I think this indicates that in practice, these pledges of 1952 have somewhere been lost along the

route, but I wish to continue.

Following this speech by General Eisenhower on August 25, he and Mr. Dulles conferred and the results of the conference were made public in a news conference by Mr. Dulles on August 26, 1952. Mr. Dulles made this statement, and I quote from the New York Times of August 27, 1952, pages 1 and 15:

"General Eisenhower agreed with me again that the most important single

issue before the American people is the issue of foreign policy.

"What we should do is try to split the satellite states away from the control of a few men in Moscow," he urged. "The only way to stop a head-on collision with the Soviet Union is to break it up from within."

Mr. Dulles said the United States should never accept a divided Korea, a divided Germany, or a divided Austria as a finality. "Truce negotiations should be continued to end the fighting in Korea," he said, but they should not be used "as an arrangement which divides Korea permanently."

And on August 27, 1952, in a speech before the American Political Science Association at Buffalo, N. Y., Mr. Dulles had this to say—and I quote from the New York Times of August 28, 1952, page 12:

Next, he said, resistance movements would spring up among patriots, who could be supplied and integrated via air drops and other communications from private organizations like the Committee for a Free Europe.

Although there were many other specific pledges in the 1952 campaign—we could simply swamp this committee with these statements—I shall mention only two more.

Speaking in Cincinnati on September 22—and it will be found in the New York Times of September 23, 1952, on page 16—General

Eisenhower made the following statement:

These principles demand that we use every political, every economic, every psychological tactic to see that the liberating spirit, in the nations conquered

by communism, shall never perish.

Thus, we shall help each captive nation to maintain an outward strain against its Moscow bond. The lands closed in behind the Iron Curtain will seethe with discontent; their peoples, not servants docile under a Soviet master, but ardent patriots yearning to be free again. Nothing is so damaging to a tyrant's war machine as the steadfast spirit of an unhappy people.

And on September 27, 1952, Mr. Eisenhower made this pledge in a letter to the town meeting, Old Sturbridge, Mass., and I quote:

In the struggle against expanding communism, we must miss no opportunity to rally men and women everywhere to the cause of freedom and progress, as opposed to the reaction of totalitarian policies and methods. We must fully develop under efficient, able direction every psychological weapon that is available to us.

This is found in the New York Times, Sunday, September 28, on page 52.

Now, Mr. Chairman, I believe those pledges were straightforward and clear. I believe that there were no "ifs" or "buts" about them.

I believe, further, that what I am proposing is clearly in line with those pledges made to the American people in 1952, and that there is no basic principle by which the administration can, in good conscience, object to the plan I am putting forward.

Mr. Chairman, at least I am hopeful it will not be said that these

pledges were only made to carry through 1954.

Now, Mr. Chairman, let me be more specific: first, about the "Freedom Administration" which I am proposing; and second, about how it can be financed.

### A "FREEDOM ADMINISTRATION"

My amendment, which I shall submit later in the day to the Senate, would create a "Freedom Administration," an independent agency with an administrator who is an American citizen and directly re-

sponsible to the President of the United States.

In addition, my amendment provides for 7 assistant administrators; 1 of whom would be an outstanding German-American, 1 a Polish-American, 1 a Lithuanian-American, 1 a Latvian-American, 1 an Estonian-American, 1 a Czechoslovakian-American, and 1 American chosen to represent all other enslaved national groups.

The administrator would be paid \$17,500 per year, and each as-

sistant administrator \$15,000, or a total of \$122,500.

The administration, with the approval of any four of the assistant administrators, could use the funds appropriated for various purposes and specific projects, among which are those which I have al-

ready mentioned and outlined.

Obviously, the President of the United States would have the final say-so on how and where the funds were to be used. My amendment would allow the administrator to coordinate his programs with the Central Intelligence Agency. My amendment does not put the agency under the State Department for a number of valid reasons, which I would prefer not to mention, but there is no reason why the President—who, after all, is responsible for our foreign policy—could not consult with his Secretary of State on policy questions.

#### OBTAINING REQUIRED FUNDS

In addition to the one-half of 1 percent of each year's foreign aid appropriation, which this year would amount to almost \$24 million if the full administration request is granted, the Freedom Administration could draw upon counterpart funds now on deposit in Europe to the credit of the United States, with the approval of the President, for allocation to approved national freedom committees now or hereafter functioning in the free world. This would enable these committees to maintain and to step up their broadcasting, publishing, correspondence, and other campaigns to keep alive freedom and resistance behind the Iron Curtain.

Committees to which counterpart funds are allocated shall have the

approval of a majority of the assistant administrators.

As the committee knows, in Europe and in Greece and Turkey at this time, 10 percent of the counterpart funds deposited to match dollar funds obligated in the country are reserved for United States use. This has been true since June 20, 1952, and before that time there was a 5 percent requirement.

In the fiscal year 1955, the amount of funds of European countries transferred to United States use amounted to \$31.9 million; and from April 3, 1948, to June 30, 1955, the cumulative amounts so deposited

amounted to \$610.6 million.

Mr. Chairman, we have made very earnest efforts to find out by how much these funds have been drawn upon, and at the moment it is impossible to determine exactly. But we believe that the sums are very considerable.

are very considerable.

Here, Mr. Chairman and members of the committee, is a source of funds available for United States use which has already been appropriated by the Congress and which certainly can be and ought to

be used in part for the purposes I have outlined here.

In addition, funds are made available for United States use under sections 550 of the act of 1951 and 402 of the Mutual Security Act of 1954. These are funds made available to the United States in the currency of the local country from the sale of United States surplus

agricultural commodities.

On June 30, 1955, the amount of the balance on deposit for Europe alone was \$80,882,000. These funds, of course, are used for a variety of purposes, including direct forces support, defense support, and development assistance programs. Yet, there is no reason why a fair share of these funds could not be used for the purposes of establishing a Freedom Administration Agency.

Thus, Mr. Chairman, it is possible to establish and carry out a freedom administration program to keep alive the spirit of freedom of the now subjugated peoples behind the Iron Curtain. The program can be carried out largely with funds which the Congress has already appropriated or which Congress will appropriate in the

future for our mutual security needs.

#### NEED FOR PROPOSAL

The program is badly needed. Too many people are being lulled into a sense of well-being and forgetfulness because of what I believe is only an "apparent" shift in Soviet policy. There is increasing talk in high circles in this country about coexistence, and this can lead to dangerous concessions which will be in fact, although not in name, acts of appearement.

Somehow, Mr. Chairman, the promises of 1952 seem to have been lost along the way, and we have not had liberation. And thus, the native hue of resolution has been sicklied over with the pale cast of thought; and, I would add, it has been a very pale cast of thought.

We must not forget those of our fellowmen who still struggle against the chains of Communist slavery. We have pledged ourselves as a matter of national policy to do all we can to keep their hope and spirit alive and to help them achieve their freedom and dignity as

free men which all men everywhere deserve as a right.

I hope, Mr. Chairman, that this committee will approve of my proposal, and that it will not have the reluctant acceptance or disapproval of the administration but, rather, the open-armed acceptance by the administration which its previous pledges deserve.

Thank you.

The CHAIRMAN. Thank you, very much, Senator Douglas.

Senator Douglas. Thank you.

The CHAIRMAN. Any questions?

Senator Smith. Just one question occurs to me.

I saw recently a statement of Mr. George Kennan to the effect that the situation was such that we were going to be prevented, for the present at least, from doing anything for the people behind the Iron Curtain.

It shocked me terribly, but I wondered what the Senator would

say about it.

Senator Douglas. Well, Senator Knowland raised that question on the floor of the Senate a couple of days ago, and I said I disagreed with Mr. Kennan's policy. And, of course, the proposal I am making is in the exact opposite direction.

#### CAMPAIGN PLEDGES OF THE ADMINISTRATION

I added, however, I was aware of the pledges of liberation which had been made by the present Secretary of State and the present President in the campaign of 1952, and I had hoped that they would be implemented.

 $\dot{\mathbf{I}}$  am still reluctant to believe that that was merely campaign talk.

I think that it should be followed up with action.

Senator Smith. I am in sympathy with the general approach of the Senator, but I regret that he is making a sort of political argument which at this stage of the game I do not think is appropriate.

Senator Douglas. I think the political argument was made in 1952, and I have always believed that campaign pledges were made to be

lived up to.

Now, if the administration has decided to accept co-existence and to give up liberation and to admit now it was wrong in its pledges, that would be a very manly attitude to take. I disagree with it, but it would be a very manly attitude to take.

But to have campaigned on the slogan of liberation, and then to have done virtually nothing in the way of liberation, seems to me not to have conformed to the highest standards of political behavior.

Senator Smith. I do not want to belabor that point.

#### ROLE OF USIA

Some of the suggestions the Senator has made, it seems to me, are being considered or being acted upon by the USIA. Would you eliminate the USIA entirely from this?

Senator Douglas. No; not at all. This is supplementary to USIA. Senator Smith. I thought we ought to do everything we could to supplement the idea of helping these people behind the Iron Curtain. I was an advocate of that at the beginning.

#### REFUGEES

Senator Douglas. I am submitting in the Congressional Record this article in the New York Times this morning, which indicates we have virtually abandoned the 220,000 refugees behind the Iron Curtain who are in these camps in Germany, and they are completely dependent, and that the defections back to Russia and Czechoslovakia and Poland are now greater than the number who are coming over, so that the balance is turning against us so far as the two crucial countries of Czechoslovakia and Poland are concerned.

And my Polish-American friends tell me that there is a great volume of letters coming to this country to people who have left those countries and who have been settled here, appealing to them to go back, and it is beginning to have effect. They are very fearful about

the situation.

Senator Smith. I have been very much troubled, myself, about the refugee situation there. I investigated those camps in Germany, and I know what it is, because I was one of those who did his best to liberalize the refugee laws.

Senator Douglas. I am not criticizing the Senator from New Jersey in the slightest. The Senator from New Jersey and I are members of one committee together, and we get along very well, and I have great respect for the purposes of the Senator from New Jersey.

I am merely saying that I think we were sold, apparently, a false bill of goods on the liberation issue, and I think that now we should begin to live up to the promises that were made. It is 4 years since Mr. Dulles' early article appeared in Life, and that was the be-

ginning of the campaign for liberation.

It was said that containment was an evil policy. Well, I had always thought we had to contain as a first step, and then after having contained, we could proceed to liberate. So I never thought that liberation was opposed to containment, or that they were antithetical policies. I regarded liberation as supplementary to containment and following containment.

But we haven't even had containment.

The CHARMAN. Senator Douglas, I have to go. Senator Green will take over, and he may have a question he wishes to ask you.

Senator Douglas. I want to thank you for your courtesy in listening to me.

The CHAIRMAN. We are delighted to have you, sir.

Senator Green (presiding). Senator, I was interrupted in my attendance here, and I did not hear the first part of your statement. Senator Douglas. Yes.

# WHY "FREEDOM ADMINISTRATION" SHOULD NOT BE UNDER STATE DEPARTMENT

Senator Green. I have been glancing over it, and I find that you use this language:

My amendment does not put the agency under the State Department for a number of valid reasons—

and I wondered what those reasons might be.

Senator Douglas. Well, I said that I would prefer not to name them in public.
Senator Green. Well, it seems to me the committee ought to know

them, if there are valid reasons.

Senator Douglas. Well, with the understanding that I give these reasons reluctantly, may I say that I have not too much confidence in the State Department in carrying out the policy of liberation; that they have had over 3 years now, to do this work, and have done virtually nothing.

The death of Stalin caught us unprepared. The State Department made no effort to capitalize or sow internal discontent upon the death

of Stalin.

When there were the uprisings in Poland, Czechoslovakia, Hungary, East Germany, East Berlin, in June of 1953, our Government did nothing to help these people. Their uprising was perhaps stimulated by the promises which had been given them in 1952. And when we hear in high circles the talk about coexistence, which I think was mentioned at Geneva, it discourages people.

The Department can still go ahead if it wishes to. I am not shutting

them off. But this is an attempt to stimulate action.

Senator Green. Thank you.

Senator Douglas. Thank you, Senator.

Senator Green. I want to thank you for your testimony.

Senator Douglas. Thank you, sir.

Senator Green. It is about time for the Senate to convene, and perhaps we can hear one more witness. I will call upon Mr. Kohlberg. The others are here from Washington, and he is from out-of-town, and that is the reason I give him preference.

# STATEMENT OF ALFRED KOHLBERG, NEW YORK, N. Y.

Mr. Kohlberg. Thank you very much. Mr. Chairman and Senator Smith, my name is Alfred Kohlberg, of 1 West 37th Street, New York 18, N. Y. I am appearing here as an individual without organizational backing, to call your attention to a carefully thought out, detailed, statement of foreign policy proposed by 70 Americans of some competence. I am 1 of the 70 signers.

Among the signers are 3 former Ambassadors, 9 general officers of the Army and Air Force, 6 of the same rank in the Navy, 3 members of the Foreign Affairs Committee of the House, and other distinguished Americans with special competence in the field of foreign re-

lations.

I might mention that Senators Bridges and Bricker gave this program general endorsement in recorded statements being broadcast tonight on Mutual network's "State of the Nation" program.

# PROGRAM OF "COMMITTEE OF ENDORSERS"

Several members of your committee have publicly called for a thorough reexamination of American world policy. This call has been taken up and echoed and reechoed in the press. To save the time

of your committee, I offer this program of the Committee of Endorsers for your record, without reading it.

(The statement referred to is as follows:)

## [The New York Times, February 28, 1955]

A. In a Republic, all policy must be a function of public consent. We, the undersigned, therefore submit to our fellow citizens a program to govern our

foreign relations.

B. The independent sovereignty of the United States must forever remain the ultimate objective of American foreign policy. This objective can best be attained in a peaceful community of free and sovereign nations, guided in their relationship by minimum standards of law and equity. To this end, it is the hope of Americans that governments be constituted to derive their lawful powers from the consent of the governed, and that peoples everywhere enjoy the dignity and freedom which is their grant from the Almighty.

C. As such a world develops, should breaches of such minimum standards threaten its security, the United States would dedicate its leadership and its power to enforcing just settlements alone or in cooperation with like-minded nations temporarily willing to act under its leadership. Under other circumstances the United States would maintain neutrality.

D. The greatest present obstacle to the attainment of the above-stated objectives is the existence of the Communist dictatorship, and its world agencies. Our aim must be to neutralize, isolate, reduce and eventually eliminate Communist power. This policy of firmness does not mean we favor preventive war. Nevertheless, our enemies should be set on notice that—however grim the prospect-we will not shrink from war if the Kremlin forces us to choose between conflict and surrender to Communist slavery.

Specifically, we propose that the Government of the United States:

1. Mobilize the strongest possible deterrents to war—military, psychological, political and economic.

2. Return to those traditional American policies which sustained us in the past, especially:

(a) The policies recommended by President George Washington in his Farewell Address.

(b) The Monroe Doctrine.

- (c) The Open Door Policy as defined in the Nine Power Treaty of 1922.
- 3. Exterminate the Communist conspiracy in the United States.

4. Withdraw recognition from the Soviet Union and its satellites.

- 5. Employ all measures to sap the economic strength of the Communist
- Scrupulously observe present military alliances (where such alliances are in truth honored by our contracting allies), and form new alliances only for the period of the emergency.

7. Extend military and economic aid only to cooperating allies.

8. Wage unremitting psychological warfare against Communist regimes, including aid to effective anti-Communist exile, underground, and resistance groups based on the principles of the Golden Rule.

9. Return to open diplomacy, except where military security imposes

10. Oppose all activities which tend toward state, supergovernment, or the transfer of decisions for American security and welfare to foreign powers and/or foreign nationals. To this end, press for the expulsion of Communist member-states from the UN. Reform the UN by removing all semblance of a permanent military alliance and separate it from its specialized agencies. Amend our Constitution to provide that neither the UN Charter, nor treaties, nor covenants, shall supersede it.

11. Base American foreign policy solidly on moral law, patriotism, enlightened nationalism and the teachings of Christ.

Col. Ulius Louis Amoss, Gibson Island, H. B. Lundberg, Lansing, Mich.

Miss Robley Baskerville, San Diego,

Congressman Alvin M. Bentley, Michi-

E. Manchester Boddy, Pauma Valley, Calif.

Lt. Gen. Lewis H. Brereton, Winter Park, Fla.

Basil Brewer, New Bedford, Mass. Ray Brock, New York, N. Y. James Burnham, Kent, Conn.

Maj. Gen. Claire L. Chennault, Taipei, Taiwan

Dr. Kenneth Colegrove, Evanston, Ill. Adm. Charles M. Cooke, Sonoma, Calif. Ambassador James H. R. Cromwell, Washington, D. C.

Thomas J. Cuite, Washington, D. C. Hon. Charles Edison, West Orange, N. J. Brig. Gen. Bonner Fellers, Washington, D. C.

Rev. James W. Fifield, Jr., Los Angeles, Calif.

Devin A. Garrity, New York, N. Y. James H. Gipson, Caldwell, Idaho Congressman Ralph W. Gwinn, New York

J. Evetts Haley, Canyon, Tex. Adm. Thomas C. Hart, Sharon, Conn. Maj. Gen. Frank E. Lowe, Harrison, Maine

Ward Bond, Beverly Hills, Calif. Dr. William Lee Hart, San Antonio,

Tex. Conrad N. Hilton, Beverly Hills, Calif.

Gordon Hunter, Hartford, Conn. Congressman Donald L. Jackson, California

Rear Adm. I. C. Johnson, Laguna Beach, Calif.

Richard Lloyd Jones, Tulsa, Okla. H. V. Kaltenborn, New York, N. Y. Frank Kirkpatrick, Milwaukee, Wis. Alfred Kohlberg, New York, N. Y. Ambassador Arthur Bliss Lane, Washington, D. C.

Gov. J. Bracken Lee, Utah

William Loeb, Manchester, N. H.

Mr. Kohlberg. Mr. Chairman, the preamble to this program briefly states America's policy objectives, and the kind of world toward which we should steadily press. The 11 numbered paragraphs are specific policies designed to attain such a world.

I offer this for your consideration. In doing so, I quote your chairman, Senator George, as reported in the debate on the Formosa

resolution:

Let every member answer, on his conscience, the question of what is his alternative \* \* \* That is the challenge. What is the alternative?

Eugene Lyons, Pleasantville, N. Y. Clarence Manion, South Bend, Ind. Adolphe Monjou, Beverly Hills, Calif. Archbishop Michael, New York, N. Y. Col. Lucian B. Moody, Washington,

V. O. Overcash, Cut Bank, Mont. William F. Peter, Chicago, Ill. Paul A. Redmond, Birmingham, Ala. John Dos Passos, Baltimore, Md. Harold S. Falk, Milwaukee, Wis. Gen. John R. Hodge (retired), Fayette-

ville, N. C. Commodore Frederick G. Reinicke, New

York, N. Y. Dr. E. Merrill Root, Richmond, Ind. George S. Schuyler, New York, N. Y. Congressman Timothy P. Sheehan, Illi-

nois Igor I. Sikorsky, Bridgeport, Conn. William Philip Simms, Washington,

Congressman Lawrence H. Smith, Wisconsin

Congressman Wint Smith, Kansas Adm. William H. Standley, Coronado, Calif.

Judge Harlan Melville Steely, Jr., Danville, Ill.

Dr. J. W. Storer, Tulsa, Okla.

Lt. Gen. George E. Stratemeyer, Winter Park, Fla.

Ambassador J. Leighton Stuart, Washington, D. C.

Miss Freda Utley, Washington, D. C. Col. William E. Warner, Columbus, Ohio

Lt. Gen. Albert C. Wedemeyer, New

York, N. Y. Robert H. W. Welch, Jr., Cambridge, Mass.

Brig. Gen. W. H. Wilbur, Highland Park, Ill.

Maj. Gen. Charles A. Willoughby, New York, N. Y.

Adm. H. E. Yarnell, Newport, R. I. Dr. Roscoe Pound, Boston, Mass. Robert E. Vogeler, New York, N. Y.

Until such an alternative is offered by some branch of Government, I think it not unfair to use this careful statement of objectives and policies to measure the foreign aid proposals now before you.

## PRINCIPLES FOR FOREIGN AID PROGRAM

The most pertinent paragraphs are:

- 5. Employ all measures to sap the economic strength of the Communist

7. Extend military and economic aid only to cooperating allies.
8. Wage unremitting psychological warfare against Communist regimes, including aid to effective anti-Communist exile, underground, and resistance groups, based on the principles of the Golden Rule.

I might interpolate that that is what Senator Douglas proposed, although on a scale much smaller than our program would envisage.

These measures are perfectly simple. In World Wars I and II, we applied such measures to sap the economic strength of our enemy. Trading with the enemy was forbidden to our nationals. Pressure was brought on others to reduce their trading with our enemies to a minimum. Both our aid and our trade should now be directed to this end.

If these policies were to be followed, all aid to neutrals would be stricken from this appropriation. Aid to allies who failed, after a reasonable period, to cooperate with our measures against the Soviet

power, would be reexamined and reduced, or canceled.

Money would be appropriated for such guerrilla forces as might exist, and could be reached, in China, in Albania, and elsewhere. Anti-Communist political and propaganda organizations in neutral nations would be stimulated by small sums as an addition to, or a substitute for, USIA activities.

And I might again interpolate, Mr. Chairman, that Senator Douglas seemed to leave out China when he mentioned the nations, and as

the China lobby, I would like to protest the omission.

To be specific on foreign aid in the brief time allotted me, I take the case of India. Under this Committee of Endorsers' program, it

would receive no aid, no grants, no loans, no point 4.

If individual Americans, missionary societies and foundations wish to continue their aid to India, we should consider India a friend and permit it for the present; though these individuals should be made to see that they—and we in permitting it—are being generous against our own interest. American business investment for profit in India would not be permitted.

## EFFECT ON ALLIES OF PROPOSALS

Gradually, everywhere, as our policies more closely approximated those laid down by the Committee of Endorsers, our allies would either (a) follow us step by step in burning their bridges to the Communist Empire, or (b) would fear these steps, and would revert to the neutralist world.

In time, some of the neutrals, more fully realizing their peril and, at the same time, seeing that we had rejected appearement, might seek us as allies on our terms. Among them, I would eventually hope to find India.

About 55 years ago, in my last year in grammar school, I read one of a popular series of books for boys. Some of the older members of this committee—and I think you possibly may be older than I, Senator—may recall this.

Senator Green. It is difficult to believe.

Mr. Kohlberg. I understand, sir.

You may recall this book, although it may have come out after your time as a boy. It was by G. A. Henty, a popular English author of boys' books, and it was entitled something like "Clive of India."

Of course, I remember very little of the book, except that it made clear that Clive had conquered India for the British East India Co. with less than 10,000 British troops, largely because of the hundred or more independent rulers in India at that time he was the only one who could be trusted through thick and thin. Thus, each Indian rajah sought Clive as an ally against his enemies, even at the price of his own independence.

When the nations of the world regard us as the Indian rulers regarded Clive, when they no longer hold their breath while we negotiate at Teheran, Yalta, Potsdam, Moscow, Panmunjom, or Geneva, it will

not be necessary to buy allies.

What is the alternative? In short, I offer you an overall program against which to measure each item in this bill; and, in closing, again quote Senator George:

That is the challenge. What is the alternative?

Thank you, Senator.

Senator Green. Thank you.

There is one other gentleman here who has had brought to my attention that he is from out of town. I am sorry, but the bell has rung, and I must go to the Senate floor.

Would you be content if we have your statement made a part of

the record?

# STATEMENT OF DANIEL T. BUCKLEY, CHAIRMAN, GOVERNMENT RELATIONS COMMITTEE, COAL EXPORTERS ASSOCIATION OF THE UNITED STATES, INC.

Mr. Buckley. Yes, sir; I will be very happy to do it.

I am from New York. I am appearing in support of the economic

aspects of it.

Our association has appeared in support of the whole program of foreign aid for the last 7 years, and for the purpose of the record I wish to restate our position, which is set forth in this statement, and I am hopeful that you will incorporate this statement in the record at this particular point, to show that I have stated our position in support of all features of the aid program, including the economic.

Senator Green. Yes.

(Mr. Buckley's prepared statement is as follows:)

STATEMENT OF D. T. BUCKLEY, CHAIRMAN, GOVERNMENT RELATIONS COMMITTEE, COAL EXPORTERS ASSOCIATION OF THE UNITED STATES, INC., BEFORE THE SENATE COMMITTEE ON FOREIGN RELATIONS ON EXTENSION OF MUTUAL SECURITY PRO-GRAM

My name is Daniel T. Buckley. I am assistant to the president of Castner, Curran & Bullitt, with offices located at 60 East 42d Street, New York City. I am appearing in behalf of the Coal Exporters Association of the United States, Inc., in support of the President's request as outlined in his message to Congress covering the program for mutual security for the fiscal year ending June 30, 1957, and which request is presently being considered by your committee.

Our organization has appeared in support of the administration's request for funds for the operation of the various agencies set up beginning with the Economic Cooperation Administration each year since 1948.

#### EUROPEAN COAL PRODUCTION

There has been a continued improvement in the economy of Europe since 1947, and during the calendar year 1955 the improvement was greater than that in any previous year and the production of bituminous coal on the Continent and Great Britain increased over the previous year approximately 1 million tons.

There is attached hereto my exhibit No. 1, captioned "Historical Survey of Coal Production by Countries, Years 1945-55." You will note that the increase in production did slow down as compared with the previous years and amounted to approximately the 1 million tons as referred to in the previous paragraph.

While the production in Western Germany and France increased by some 3 million tons, the production of the United Kingdom declined by approximately 2 million tons.

The energy demand of the OEEC countries once again increased over the previous year and this resulted in the increased importation of not only coking, gas and metallurgical coals from the United States as had happened previously, but also a substantial increase in the shipment of coal that is normally

used for steam generating purposes.

#### NEED FOR EUROPEAN COUNTRIES TO IMPORT COAL FROM UNITED STATES

The problem of producing the better quality coals on the Continent and in Great Britain has continued to multiply and, at least at this writing, it has not been possible to insure a continuing increase in the better quality of coals in order to meet the increased energy requirements. As a result, the United States is being called upon to furnish an increasing portion of the energy requirements of not only the OEEC countries but other countries which are not members of the OEEC.

The fact that the United States Government, through its various Foreign Aid Assistance Acts, helped the countries of Europe to get on their feet, has been responsible for the continuing improvement in the economy of Europe. However, such improvement in the economy has resulted in a demand for coal far in excess of what they have been able to produce, and it is this improvement that has required the importation of a substantial tonnage from the United States.

Exhibit No. 2, which is attached to this statement, captioned "United States Overseas Exports of Bituminous Coal by Continental Groups, Years 1946-55," indicates exports of bituminous coal from the United States to various continental groups and indicates that the demand for American Coal is worldwide. While it is true that the greater percentage of this coal is of the coking, gas, and metallurgical quality, there is an increasing percentage of coal normally used for steam purposes and this, of course, reflects the inability of the coal producing countries throughout the world to produce sufficient coal to meet their own requirements.

Approximately 70 percent of the total overseas exports went to the European countries, which is approximately the percentage that has moved in the past, and this tonnage improvement of 28,659,900 tons to Europe was the largest amount moving to these countries since the year 1947. Significantly, while in the calendar year 1947 this coal was paid for with economic aid granted by the United States, the tonnage moving during the calendar year 1955, with the exception of a very nominal tonnage to Spain and Yugoslavia, was paid for by these countries with their own dollars and not dollars advanced by ICA.

The improvement in the financial stability of the various European countries is best reflected by their ability to pay for the coal which they are now purchasing with free dollars instead of with dollars advanced by the United States Government.

It is most significant that the business as transacted today is between a buyer and seller operating in private industry without control from any Government source, and is a most satisfactory arrangement because it has permitted the free movement of coal without governmental restrictions and represents the carrying out of our free enterprise system on an international basis. This, of course.

is most desirable.

My exhibit No. 3, appended to this statement, is captioned "United States Overseas Exports of Bituminous Coal by Countries of Destination and Continental Groups, Years 1955 and 1954." An examination of this exhibit would show that there was an increase in the export tonnage to practically all of the continental groups for the year 1955 as compared with the year 1954. The greatest increase, of course, was to Europe which reflected an increase of some 18 million tons as compared with the previous years. The greater part of this increase was accounted for by four countries, which shows that West Germany imports increased approximately 5,300,000 tons in 1955 over 1954; Italy, 2,500,000 tons for the same two periods; Netherlands, 2,700,000 tons; and, in the case of the United Kingdom, imports of American coal in 1954 was 461,000 tons and this increased to 4,858,000 tons in 1955 or an increase of 4,400,000 tons.

It is our opinion that the United States' ability to take care of such an enormous increase in exports once again indicates the great flexibility that we have in our coal mining industry and further points up the fact that we are truly the coal mine of the world, and believe that we can continue to supply export markets

with whatever their needs may be.

#### EXPORTATION OF COAL TO KOREA

I direct your attention, however, to page 2 of our exhibit No. 3 and you will note that exports to Korea for the year 1955 total 919,000 tons as compared with 111,000 tons in the year 1954. This reflected the policy of Governor Stassen, the former Director of the Foreign Operations Administration, which was that on coal shipped to Korea the source of such supply should be the United States. This policy was continued during the greater part of 1955 until the present Director, Mr. Hollister, changed the basis to a world source of supply. This has resulted in a substantial reduction in the shipment of United States coal to Korea, although the intention of Governor Stassen was to see that this coal was purchased from coal-producing areas in the United States that were suffering substantial unemployment and the shipment of American coal would help to give the coal miner an opportunity of getting a days' work. Under the Stassen program, the coal purchased by the United States Government for shipment not only to Korea but other countries that could use the kind and quality of coal produced in areas suffering unemployment was purchased from many States and accomplished a very humanitarian purpose.

## INCREASE IN NEED THROUGHOUT WORLD FOR UNITED STATES COAL

There is a continuing increase in the need of American coal throughout the world and the increased requirements have necessitated a very substantial increase in the number of vessels to transport this coal. Your committee will note that exhibit No. 4, attached hereto, capitioned "Overseas Exports of Coal by Months 1954-55 and first quarters 1956 and 1955," gives a picture that reflects the continuing increase in this movement monthly in 1955 and further that this increase continued in the first 3 months of 1956 not only on bituminous but also anthracite coal. It is safe to predict that should the present rate of movement continue, exports for the calendar year 1956 will be in excess of 40 million net tons as compared with the 34 million tons in the calendar year 1955.

One of the important factors with respect to this increase was the very severe winter that was experienced in both Great Britain and the Continent of Europe, beginning the last week of January and extending through the first week of March, which saw weather of a kind that was the most severe in 50 This resulted in a tremendous depletion in the stocks of coal above ground and, in addition, reflected the inability to produce and move coal during the most severe weather and accounts for a substantial part of the increased movement of American coal that will take place during the present calendar year. Here, again, is reflected that the United States coal industry is serving as the coal mine of the world and, without the supply presently moving, the economy of those countries in Europe and throughout the world depending upon an adequate supply of coal would be seriously affected.

#### VESSEL RATES FOR TRANSPORTING COAL TO EUROPE

The last exhibit attached to my statement, captioned "Single Trip Vessel Rates on Coal from Atlantic Ports by Months from January 1951 to April 1956," sets forth the single trip vessel rates by months from January 1951 through April 1956 to various parts of the Continent of Europe. An examination of this exhibit reflects the wide variation in vessel rates that have occurred over this 5-year period.

However, I specifically address your attention to the fact that at no time since March 1951 has the vessel rate for the transportation of coal to Europe ever been reached and, further, that even though the movement of coal during the calendar year 1955 to Europe was at a higher level than in 1951, the rates for the transportation of coal were substantially lower than those in effect in 1951 even though the cost of wages and other items of expense had increased materially since 1951.

It is also significant that the various European countries and other countries throughout the world that have been purchasing their coal with free dollars are not bound by the 50 percent provision relating to the use of American flag vessels on tonnage purchased with dollars advanced by ICA, and practically in all cases where the countries do their own financing, they charter foreign-flag vessels.

It is further interesting to note that there has been an increase of approximately from \$3 to \$4 a ton in the foreign-flag vessel rates between August 1954 and August 1955. Generally speaking, the governments purchasing the coal for shipment overseas do not charter American-flag vessels not only because their rates are materially higher than those charged by the foreign-flag vessels but, in many instances, they are able to charter these boats in soft currency. This helps to conserve their dollars and, as a result, the dollar outlay in many cases when purchasing American coal represents the price of the coal at the loading port in the United States and from that point until the ultimate consumer in the foreign country, dollars are rarely paid for transportation and other costs.

We are happy to state that restrictions that have been placed on the importation of American coal over the past several years have been withdrawn by most of the countries that had placed these restrictions on American coal, and it is our opinion that as long as the present demand for American coal continues not only in Europe but throughout the world, restrictions such as had been applied over several years will be held in abeyance. We doubt that such restrictions covering American coal movement will be applied in the near future.

It is our opinion that coal will continue to play a very important part in the world economy and, under the program as indicated by the President in his message to you, it is clear that coal will be purchased by several countries during the next fiscal year. It is our further opinion that should the matter of economic aid be extended during the next fiscal year, this might well apply to Europe as well as the rest of the world, even though Mr. Hollister in his statement of May 7 to your committee indicated otherwise.

# COAL PURCHASED BY ICA SHOULD BE RESTRICTED TO UNITED STATES COAL

It is the opinion of the coal exporters of the United States that any program of coal purchasing by ICA during the next fiscal year should be restricted to United States coal and we should not be confronted with a change of policy such as was done by Mr. Hollister in August 1955, which did change the policy of the agency as it related to the purchase of coal by placing the American coal producer in the position of having to compete with coal produced in foreign countries through the medium of having all procurement authorizations for the purchase of coal stipulate that such coal should be purchased on a worldwide basis.

We disagree with this procedure and recommend that the agency in its future purchases of coal designate the United States as the source of supply.

In closing, we express our opinion that the various statutes, beginning with the Foreign Aid Assistance Act of 1948, have been most beneficial to those nations of the world that have received assistance from our country, and it is our belief that a continuation of the program as set forth by the President in his message to Congress is essential if we are to maintain a free world that is free in every sense of the word.

EXHIBIT No. 1.—Historical survey of coal production by countries, years 1945-55 [Million metric tons]

			_	$\overline{}$						
	1945	1947	1948	1949	1950	1951	1952	1953	1954	1955
			,,	,	,				i	_
United Kingdom	185.7									225.2
Western Germany	35. 5									130.7
France	33. 3									55.3
Belgium	15 8									30.0
Netherlands	5 1									11.9
Italy	. 8				1.0	1.2	1.1	1.1	1.1	
Portugal	.4	.4	.4	.4	n . J		المال	1		1
Sweden.	. 4	. 3	3			1.0	1.0	1.0	1.0	(1)
Ireland	.2	. 2	. 2	. 2	ا ا	ل ا	ı J	( J	ı J	
French North Africa			. 5			. 6	7	9		
Saar	3. 5	10. 5	12.6	14 3	15 1	16.3	16.1	16.4	16.8	17.3
/D-4-1	201 0	004 5	005.5	400 4	100.0	100.0	450.0	[		
Total	281.0	364. 5	395. 7	429. 4	439. 9	461.0	472.6	467.8	470.6	471.5
	<u></u>	!							!	

<sup>&</sup>lt;sup>1</sup> Not available.

Source: From reports of the Organization for European Economic Cooperation, Coal Committee of the Economic Commission for Europe and the U.S. Bureau of Mines.

EXHIBIT No. 2.—United States overseas exports of bituminous coal by continental groups, years 1946–55

## [Net tons]

Period	North and Central America <sup>1</sup>	South America	Europe	Asia	Oceania	Africa	Total
1946 1947 1948 1948 1950 1950 1951 1952 1953 1953 1954 1955	415, 400 773, 400 375, 400 148, 300 109, 600 138, 100 111, 700 113, 761 110, 298 107, 788	1, 722, 600 2, 866, 300 1, 867, 100 818, 700 1, 303, 100 3, 016, 200 2, 275, 100 1, 746, 982 1, 384, 745 1, 447, 121	16, 074, 200 36, 703, 200 16, 092, 800 8, 681, 800 794, 000 27, 925, 500 20, 676, 500 8, 311, 620 10, 471, 238 28, 659, 380	201, 500 311, 000 765, 200 1, 395, 100 147, 200 1, 889, 200 3, 052, 100 3, 915, 073 3, 048, 578 3, 725, 860	37, 500 107, 500 26, 200 88, 600 11, 200 29, 100	877, 700 2, 057, 400 960, 700 611, 800 105, 400 918, 300 541, 100 88, 692 113, 933 132, 617	19, 328, 900 42, 818, 800 20, 087, 400 11, 744, 300 2, 459, 300 33, 898, 500 26, 685, 600 14, 176, 128 15, 128, 792 34, 072, 766

<sup>1</sup> Excludes Canada.

Source: U. S. Department of the Interior, Bureau of Mines.

Exhibit No. 3.—United States overseas exports of bituminous coal by countries of destination and continental groups, years 1955 and 1954

# [Net tons]

Country of destination	Year 1955	Year 1954	Country of destination	Year 1955	Year 1954
NOBTH AND CENTRAL			EUROPE—continued		
AMERICA			an		
			Gibraltar	22, 355	
Bermuda	1, 911	595	Greece	151, 934	30, 849
Costa Rica	25		Iceland	6, 417	
Cuba	30, 764	39, 278	Italy	6, 056, 130	3, 542, 830
Dominican Republic	75	75	Netherlands	4, 623, 496	1,944,583
El Salvador		40	Norway	459, 956	206, 827
French West Indies	3, 304	1,303	Portugal	76, 317	41,849
Greenland	4, 485	<b></b>	Spain	433, 096	275, 236
Guatemala	190	150	Sweden	656, 223	429, 676
Honduras	90	25	Switzerland	58, 552	194, 186
Jamaica	12,631	14, 451	Trieste	378, 709	242, 511
Leeward and Windward	,	,	United Kingdom	4, 858, 067	461, 091
Islands	5, 412		Yugoslavia	690, 284	728, 193
Mexico	45, 478	51, 815			120,100
Panama, Republic of	25		Total	28, 659, 380	10, 471, 238
Trinidad and Tobago	3, 398	2, 566	1 000	20, 000, 000	10, 111, 200
			ASIA		
Total	107, 788	110, 298	11022		
	201,100	=====	Afghanistan	32	
SOUTH AMERICA			Indonesia	45, 409	14, 536
boots same			Israel	795	1, 290
Argentina	64, 743	8, 795	Japan	2, 760, 495	2, 921, 144
Bolivia	13, 538	0,100	Korea, Republic of	919, 129	111,608
Brazil	1, 115, 433	1,073,991	Lorea, Republic of Line	010, 120	111,000
Chile	139, 285	214, 379	Total	3, 725, 860	3, 048, 578
Surinam (Netherlands	100, 200	211,010	1 0001	0, 120, 000	0,010,010
Guiana)	2, 689	4, 413	AFRICA		
Uruguay	111, 433	83, 066	AFRICA		
Venezuela		101	Angola	65, 302	56, 462
V 0110240162		101	Belgian Congo		16, 409
Total	1, 447, 121	1, 384, 745	Canary Islands	12, 830	10, 408
1001	1, 417, 121	1,004,740	Ethiopia		10, 543
EUROPE			Egypt	31,772	30, 519
BUBUL			Madeira Islands	1 690	30, 318
Austria	809, 807	421, 543	Madella Islands	1,000	
Belgium and Luxem-	609, 60 <i>1</i>	421, 343	Total	132, 617	113, 933
bourg and Luxem-	1 140 450	265, 118	I Otal	132, 017	110, 933
Denmark	1, 142, 452		Tindesignated	3, 100	0.100
Finland	357, 752	224, 622	Undesignated	3, 100	2, 160
	188, 772	9, 284	Matal hitumain		
France	1, 016, 888	68, 861	Total bituminous	04 077 000	15 100 050
Germany (West)	6, 672, 173	1, 383, 979	coal exports	34, 075, 866	15, 130, 952

Source: U. S. Bureau of Mines

Exhibit No. 4.—Overseas exports of coal, by months 1954-55, and 1st quarters 1956 and 1955

		Net tons	
Year	Bituminous	Anthracite	Total, all coal
1954—January February March April May	985, 893 862, 260 1, 049, 953 1, 184, 198 1, 170, 600 1, 286, 535	13, 015 12, 442 2, 451 31, 703 4, 246 21, 451	998, 908 874, 702 1, 052, 404 1, 215, 901 1, 174, 846 1, 307, 986
June July August September October November December	1, 224, 625 1, 272, 148 1, 112, 292 1, 553, 538 1, 474, 021 1, 940, 074	561 28, 384 7, 073 107, 652 59, 348 106, 166	1, 225, 186 1, 300, 532 1, 119, 365 1, 661, 190 1, 533, 369 2, 046, 240
Total, year 1954	15, 116, 137	394, 492	15, 510, 629
1955—January February March April May June July August September October November December	1, 430, 252 2, 149, 112 1, 867, 739 2, 475, 462 2, 576, 129 2, 867, 705 3, 087, 821 3, 672, 856 3, 672, 727 3, 772, 580 3, 185, 829 3, 303, 543	70, 445 16, 529 43, 322 50, 305 34, 504 14, 477 38, 602 78, 866 41, 876 103, 900 80, 255 155, 176	1, 500, 697 2, 165, 641 1, 911, 061 2, 525, 767 2, 610, 633 2, 882, 182 3, 126, 423 3, 751, 722 3, 714, 603 3, 876, 480 3, 266, 084 3, 458, 719
Total, year 1955	34, 061, 755	728, 257	34, 790, 012
1956—January February March	3, 722, 577 3, 353, 092 3, 220, 373	181, 671 131, 063 128, 989	3, 904, 248 3, 484, 155 3, 349, 362
1st 3 months of 1956	10, 296, 042 5, 465, 492	441, 723 129, 261	10, 737, 765 5, 594, 753

Source: U. S. Bureau of Mines for 1954 and 1955 figures. Car Service Division of AAR for 1956 and comparable 1955 data.

EXHIBIT No. 5.—Single trip vessel rates on coal from Atlantic ports by months from January 1951 to April 1956

## [Per gross ton]

			6			
	Rotterdam	Dis- charge rate	Bordeaux-Dun- kirk, range	Dis- charge rate	Savona, Genoa, Naples	Dis- charge rate
May 21 June 18 July 16 Aug. 20 Sept. 17 Oct. 15	\$13 to \$13.50 \$13.50 to \$14 \$13 to \$13.50 \$12.50 to \$12.75 \$11.50 to \$12.25 \$10.25 to \$10.75 \$11.75 to \$13 \$10.50 to \$11.25 \$10.50 to \$11.25	2,500 2,500 2,500 2,500 2,500 2,500 2,500 2,500 2,500 2,500 2,500	\$11.50 to \$12 \$13.76 to \$14.25 \$14.50 \$14.50 \$13.50 \$12 to \$13 \$11.75 \$13.50 \$14.50 \$14.50 \$14.50 \$14.50 \$14.50 \$14.50 \$14.50 \$14.50 \$14.50 \$15.50 \$	1,000 1,000 1,000 1,000 1,500 1,500 1,500 1,500 1,500	\$13.25 to \$13.75 \$13.50 to \$14 \$12.50 to \$13 \$11.10 to \$11.50	2,000 2,000 2,000 2,000 2,000 2,000 2,000 2,000 2,000 2,000
Oct. 14 Nov. 17	\$9 to \$9.50. \$6.75 to \$7.25. \$6.50 to \$7.00. \$7.00 to \$7.50. \$4.50 to \$5.00. \$4.00 to \$4.50. \$3.50 to \$4.00.	2,500 2,500 2,500 2,500 2,500 2,500 2,500 2,500 2,500 2,500	\$4.75 to \$5.25	1,500 1,500 1,500 1,500 1,500 1,500 1,500 1,500	\$4.75 to \$5.25 \$4.75 to \$5.25 \$5.25 to \$5.75	2,000 2,000 2,000 2,000 2,000 2,000 2,000 2,000 2,000

EXHIBIT No. 5.—Single trip vessel rates on coal from Atlantic ports by months from January 1951 to April 1956—Continued

	Rotterdam	Dis- charge rate	Bordeaux-Dun- kirk, range	Dis- charge rate	Savona, Genoa, Naples	Dis- charge rate
1963						_
Jan. 19	\$4.25 to \$4.60	Tons 2, 500	\$4.50 to \$5.00	Tons 1. 500	\$5.00 to \$5.50	Tons 2,000
Feb. 16.	\$4.25 to \$4.60	2, 500	\$4.50 to \$5.00	1, 500	\$5.00 to \$5.50	2,00
Mar. 16	\$4.65 to \$5.15	2,500	\$4.90 to \$5.40	1,500	\$5.15 to \$5.65	2,000
Apr. 20	\$5.00 to \$5.25	2, 500	\$5.25 to \$5.75	1, 500	\$5.75 to \$6.00	2,000
May 25	\$4.55 to \$4.80	2,500	\$4.80 to \$5.30	1, 500	\$5.30 to \$5.55	2,000
June 22	\$4.15 to \$4.40	2, 500	\$4.55 to \$5.05	1,500	\$5.05 to \$5.30	2,00
July 20	\$3.90 to \$4.15	2,500	\$4.30 to \$4.80	1,500	\$4.60 to \$4.90	2,00
Aug. 17	\$3.90 to \$4.15 \$3.60 to \$3.90	3,000 3,000	\$4.30 to \$4.80 \$4.10 to \$4.50	1, 500 1, 500	\$4.20 to \$4.45 \$4.20 to \$4.45	3, 00 3, 00
Sept. 14 Oct. 19	\$4.15 to \$4.45	3,000	\$4.65 to \$5.05	1,500	\$4.75 to \$5.00	3,00
Nov. 16	\$4.15 to \$4.45	3,000	\$4.65 to \$5.05	1,500	\$4.75 to \$5.00	3,00
Dec. 14	\$4.00 to \$4.30	3,000	\$4.50 to \$4.90	1,500	\$4.50 to \$4.75	3,00
1954						
Jan. 18	\$3.85 to \$4.15	3,000	\$4.35 to \$4.75	1,500	\$4.35 to \$4.60	3,000
Feb. 15	\$4.30 to \$4.60	3,000	\$4.80 to \$5.20	1,500	\$4.90 to \$5.15	3,000
Mar. 15	\$4.50 to \$4.80	3,000	\$5.00 to \$5.40	1,500	\$5.20 to \$5.45	3,00
Apr. 19	\$4.50 to \$4.80	3,000	\$5.25	1,500	\$5.00 to \$5.25 \$4.75 to \$5.00	3, 00 3, 00
May 17	\$4.25 to \$4.50 \$4.40 to \$4.65	3,000	\$5.25 \$5.40	1,500 1,500	\$4.90 to \$5.15	3,00
June 14 July 12			\$5.40	1,500	\$4.75 to \$5.00.	3,00
Aug. 16			\$5.55	1,500	\$5.15 to \$5.40	3, 000
Sept. 20			\$5.60	1,500	\$5.75 to \$6.05	3,000
Oct. 18			\$6.40 to \$6.70	1,500	\$6.35 to \$6.55	3,00
Nov. 15	\$6.40 to \$6.75		\$7.25 to \$7.75	1,500	\$7.40 to \$7.75	3,00
Dec. 20	\$6.75 to \$7.10	3,000	\$7.60 to \$8.10	1,500	\$7.60 to \$7.85	3, 00
1955						
Jan. 17	\$7.45 to \$7.80		\$8.30 to \$8.80	1, 500	\$7.60 to \$7.85	3,000
Feb. 21	\$7.90 to \$8.50		\$9.00 to \$9.50	1,500	\$8.00 to \$8.50	3,00
Mar. 14	\$6.75 to \$7.15		\$7.50 to \$8.00	1,500 1,500	\$7.50 to \$8.00 \$7.50 to \$8.00	3, 00 3, 00
Apr. 18	\$6.85 to \$7.10 \$7.50 to \$7.75	3,000	\$7.75 to \$8.25 \$8.45 to \$8.95	1,500	\$8.05 to \$8.55	3,00
May 16	\$8.15 to \$8.50		\$9.25 to \$9.75	1,500	\$9.00 to \$9.50	3,00
July 18	\$8.50		\$9.50	1,500	\$9.00 to \$9.50	3, 00
Aug. 15			\$9.20	1,500	\$8.75 to \$9.00	3,00
Sept. 19		3,000	\$9.70	1,500	\$9.50	3,00
Oct. 10	\$10.00		\$11.10		\$10.00	3, 00 3, 00
Nov. 14	\$8.85	3,000	\$10.00	1,500	\$9.50 \$9.25	3, 00
Dec. 12	\$9.20	3,000	\$10.40	1, 500	φ9,20	0,00
195 <b>6</b>					4	
Jan. 16	\$9.90	3,000	\$11.05	1, 500	\$9.95	3,00
Feb. 13	\$9.70	3,000	\$10.80	1,500	\$9.95 \$9.95	3,00 3,00
Mar, 19	\$10.10		\$11.25	1,500 1,500	\$9.95	3,00
Apr. 16	\$10.60	3,000	\$11.65	1,000	φ.υ.Δυ	, 00

Source: W. W. Battie & Co., Inc., Coal Trade Freight Report.

Mr. Buckley. And I appreciate, Senator Green, the opportunity you have given me, under the conditions, of presenting this statement, because we intend to release it today to all of the members of our industry, and it is in support of the entire program.

Senator Green. We are very glad to do that, and I am sorry, sir, I cannot stay here to have you read it and to question you about it.

Mr. Buckley. Thank you very much, Senator Green.

Senator Green. Are there any others of those who are here now who would rather submit their statements without waiting until tomorrow to read them? Otherwise, this meeting is going to be adjourned until tomorrow morning. We have an executive committee meeting this afternoon.

If there are none, this meeting will stand adjourned.

(Whereupon, at 12 noon, the committee adjourned, to reconvene at 2:30 p.m., in executive session.)

# **MUTUAL SECURITY ACT OF 1956**

# THURSDAY, MAY 10, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS, Washington, D.C.

The committee met, pursuant to recess, at 2:45 p. m., in the committee room, United States Capitol Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Fulbright, Mansfield, Wiley, Smith (New Jersey), Hickenlooper, Langer, and Aiken.

The CHAIRMAN. The committee will come to order.

We have this afternoon Ambassador Cooper, our Ambassador to India. And we are considering, Mr. Ambassador, the Mutual Security Act, and particularly we would like to hear from you on India; and any other observations you have to make about that area we will, of course, be very glad to receive.

You may proceed in your own way with a preliminary statement, after which, of course, the committee will want to ask you some questions, unless you prefer to have the questions asked as you go along.

# STATEMENT OF HON. JOHN SHERMAN COOPER, AMBASSADOR OF THE UNITED STATES TO INDIA

Mr. Cooper. Either way.

The CHARMAN. We will leave that with you.

Mr. Cooper. Mr. Chairman and members of the committee, I would like to thank you for giving me this opportunity to appear before you. I appeared here over 2 months ago, and at that time I met with you for nearly 3 hours.

In that meeting there was a discussion of the political situation in India, and particularly with reference to our relations with India.

At that time, the committee also asked me my views concerning our aid program in India, and to make any recommendations I thought appropriate.

I said at the time that I had given thought to the matter, and would be glad to give my views about our present aid program, and whether improvements could be made. I am ready to do this. But, I know today my responsibility is to talk to you chiefly about the proposals that have been made by the President, and to give such reasons as I think should be adduced to support his recommendations for India.

#### AMOUNT REQUESTED FOR INDIA

One proposal is, as you know, that the Congress authorize and appropriate for India the sum of \$80 million—\$10 million of which would be available for technical assistance, and \$70 million for what

is termed "development assistance."

In past years the sums which have been made available for development assistance have been used, in part, for the supply of surplus food, and the remaining part has been available for foreign exchange, or for such purposes as the United States and India might agree.

In my service of shortly over a year in India, of course I have become increasingly aware of the questions that the Congress, and specifically the committees that deal with our aid program, have

raised in the consideration of our aid programs for India.

I am familiar, I think, with the issues upon which those questions are based. After 1 year of service in India, I have returned with the strong belief that the United States should continue its aid program in India and find means to strengthen its program, to make it more effective in order to assist in the most friendly way a country which is making great progress.

#### PURPOSES OF AID PROGRAM

As I understand the purposes of our aid program, they are designed to strengthen the security of the United States and to support its foreign policy by assisting countries to develop and maintain economic stability in raising the living standards of their people and thus to be free and independent.

Certainly upon these bases, aid to India is justified.

As you know, India has been independent since 1947, a short period of 9 years. India attained its political independence by agreement with the British, after a long and courageous struggle. It then began its efforts to achieve economic stability and economic independence. India, while it has rich natural resources, does not have the funds and availabilities for a long period of trial and error in development.

# INDIA'S FIRST 5-YEAR PLAN

Because of that fact, in 1951 it instituted what it termed "its first 5-year program," as a means of mobilizing, guarding and directing the use of the resources that could be made available for economic

development in India.

The purposes of the first 5-year plan were to give priority to an increase in agricultural productivity so that India might become self-sufficient in food grains and in fiber; to promote an increase in the production of basic industrial necessities, such as steel, iron, coal, cement, and power; and to increase the production of light machinery.

In this program they proposed to spend approximately \$8 billion, of which \$4.8 billion was to be made available by the central and the state governments and the remainder to come from private

investment.

The government and private industry were able to make practically all of that sum available, and in the 5-year period, which has just ended, the people and the Government of India have achieved, in substance, the goals which they had set for themselves.

They did increase their agricultural productivity by about 20 percent, and became substantially self-sufficient; and the industrial index

showed an increase of about 50 percent.

It is also rather notable that although there was deficit financing of the order of \$900 million during the 5 years, that is in internal currency-rupees-India was able to avoid inflation; there was some rise in prices, but not to any large extent.

Senator Smith. That was the period 1951 to 1956, I take it.

# INDIA'S SECOND 5-YEAR PLAN

Mr. Cooper. The first program ended in March 1956 and India has begun its second 5-year plan.

In the second 5-year period which began in March 1956, the total expenditure, both public and private, is intended to be doubled.

It is proposed that the union government and the state governments will spend about \$10.0 billion in public investment, chiefly in industry and transport; and that the so-called private sector, that is, private enterprise, will spend something about \$4.8 billion—a total of almost \$15 billion, which is rather modest in terms of the investment with which we are familiar in the United States.

You may ask: What are the considerations which led India to adopt a figure of, say, \$10.0 billion in public funds which the central government and the states would make available for the second 5-year plan?

The Government has believed that in order to make progress, an industrial base must be established in the basic fields of iron, steel, coal, power, machine tools, the heavier chemicals and transportation. It is necessary to build heavy industry, to provide a sufficiency of goods at lower prices than they must now pay other countries; to save foreign exchange and to save independence in providing for the needs of their country.

A further reason for fixing the proposed investment at over \$70 billion by the union government and the states is to raise national income in the next 5 years by 25 percent, from a total of about \$22 bil-

lion annually to \$28 billion annually.

Another purpose is to give employment to 8 million people, which represents the new labor force that will come into the market.

Now, those are some of the goals.

You may ask the criteria for these goals. It is difficult to answer accurately except to say that their economists and leaders, considering the needs and the resources of their country, see them as the very minimum requirements.

INDIA'S INVESTMENTS AND PROGRESS COMPARED TO COMMUNIST CHINA'S

A basis of comparison is that some officials of the Indian Government have told me that upon the information that is available to them, the India plan represents about one-half the effort that will be made in the same 5-year period by Communist China.

Senator FULBRIGHT. I did not understand that. One-half of the

investment in capital goods?

Mr. COOPER. The total effort that will be made in terms of investment, the total effort in India in both the public and private sector, that is, by the government and by private enterprise, will be almost 15 billions of dollars.

Senator FULBRIGHT. That is one-half of what is being done in

China?

Mr. Cooper. That is the estimate which has been made.

Senator AIKEN. What is the relative rate of progress? Does that represent improvement on the part of India, or retrogression, as com-

pared with the program of Communist China?

Mr. Cooper. It is very difficult for anyone to get true statistics or proof of the progress of Communist China. Indians and others who have visited Communist China have told me that Communist China is making rapid progress economically; that while it is at this point much behind India, nevertheless if the rate at which Communist China is progressing can be maintained, and India is not able to meet even the minimum goals that it has fixed for itself, then it must be considered that within several years—perhaps 10 to 20 years—that Communist China might overtake India in industrial expansion.

Senator Fulbright. What are the Indians spending on arms?

Mr. Cooper. India? Their expenditure is about \$450 million for this fiscal year, for this year.

Senator Fulbright. What do you estimate Communist China spends

on arms?

Mr. Cooper. I have no knowledge.

Senator Fulbright. It is generally believed that Communist China spends a lot more than India on arms. And they are also able to do twice as much investing, as well as keep up their large armies.

Mr. Cooper. That is the understanding that is held.

Senator AIKEN. Well, the Communist Chinese investment includes arms investment, does it not?

Mr. Cooper. That, and heavy industry. It is assumed that Communist China is placing emphasis in heavy industry, following, of course, the pattern of the Soviet Union.

Also, it is known that the Soviet Union is providing large amounts of aid to Communist China in terms of capital equipment, machinery.

Senator Fulbright. You say it is known?

Mr. Cooper. Yes.

Senator Fulbright. Do you know how much they are supplying them?

Mr. Cooper. It is only an estimate.

Senator Fulbright. Well, what is the estimate?

Mr. Cooper. I have heard an estimate of over \$3 billion, but I do not know by whose standards.

Senator Fulbright. A year?

Mr. Cooper. A year, of aid supplied to Communist China by Soviet Russia.

To return, then, to the point I was making. At the beginning of the first 5-year program in India, India certainly was ahead of Communist China in total production and in the rate of increased industrial productivity. India believes it is still ahead of Communist China.

Today some officials in the Indian Government have made the statement that at the present rate of production, it might be 20 years before China would catch up with India. But they are aware of the fact that the rate of investment and total effort which is now being made in China as compared to India is—as I say—twice that of India. If that ratio should continue and India cannot fulfill its goal, then Communist China would in time equal and surpass the production of India.

# METHOD OF FINANCING SECOND 5-YEAR PLAN

India desires in this second 5-year period to lay an industrial base,

to increase the rate of production.

It is just a base, because they know when that is done, there will still be great need and further programs. During the 5-year program itself, India must be able to maintain its normal imports, and even increase imports of capital goods such as steel to a total of 6-7 million tons. It must find foreign exchange to buy steel and the heavy machinery and the tools upon which an industry must be built.

This is the prerequisite—the need of foreign exchange to buy capital

equipment, tools, and supplies abroad.

The question arises: How will India secure the money? How can it finance the plan?

The national income of India today is about \$22 billion.

Senator Fulbright. Do you mean by that what we call the gross national product?

Mr. Cooper. Gross national product? The Indian speaks of it as

national income.

Senator Fulbright. Only \$22 billion?

Mr. Cooper. Yes, \$22 billion. It was increased in the first 5-year plan by about 10 percent. They expect in the next 5-year plan to increase the gross national product by about 25 percent.

The total income at present is about \$22 billion. During the second

5-year plan the goal is \$28 billion.

The income of the governments from these resources is about \$2 billion.

Senator SMITH. What was the gross national product when they got their independence 9 years ago? How much has it increased since?

Mr. COOPER. National income has increased from \$18 billion in 1948—

49, after independence.

Senator Smith. A couple of billion.

Mr. Cooper. Yes, it has increased during this first 5-year program by reason of the great efforts that India has made.

Senator Fulbright. What is their population now?

Mr. Cooper. About 380 million people.

Senator SMITH. And is China close to 500 million?

Mr. Cooper. 500 to 600 millions.

To finance the second 5-year program, the Government will increase taxation, and encourage the investment of the savings of their people to meet one-half of the demands of the program, that is, \$5 billion.

Deficit financing to the extent of one-fourth of the program in local

currency, \$2.5 billion, will be necessary.

It is hoped that the remainder, about one-fourth of the total, will be obtained through normal trade balances through drawing down a part of the sterling reserves which India uses as the backing for its currency, and by external credits, loans, and grants.

In the total program, on the public side, of \$10 billion, the Government has estimated it will need the sum of \$2.3 billion in foreign exchange. They expect to secure \$600 million of that by using \$400

million in pounds sterling from their currency reserves.

They hope to secure \$200 million of private investment. That would reduce the gap to \$1.7 billion.

They expect to receive in aid from the Colombo powers—that will be Canada, Australia, New Zealand—about \$140 million; secure loans from the world bank in the aggregate of \$100 million; and that they will be able to save some foreign exchange in the 3 steel mills that are being built or to be built by Great Britain, Germany and Russia, perhaps something over \$100 million.

But even if all of these projections and other possibilities should be realized, there will remain a gap in foreign exchange availabilities of between a billion and 1.3 billion dollars. In estimating its need, India has excluded the amounts of aid that it might secure from the United States or from the Soviet Union toward closing the gap of \$1.3 billion.

(The following data was subsequently submitted for inclusion in the

record.)

Foreign exchange gap in India's second 5-Year Plan

Billion

Total foreign exchange requirements \$2.310

Sources of foreign capital: 0.210

Drawdown of private capital 0.420

Total 0.630

Gap (without foreign aid, etc.) 1.680

Possible foreign aid from non-United States Government sources 0.340

Gap 1.340

# INDIA'S NEED FOR FOREIGN EXCHANGE

If the premise is accepted that the plan for economic development over the next 5-year period is necessary for industrial expansion, then, it seems to me, we must accept the fact that foreign exchange must be secured to buy capital equipment and supplies, without which the industrial expansion cannot be made.

To the extent that India is unable to secure foreign exchange, the plan will either fail or be postponed, that is, it will take longer than

5 years.

I believe the sum fixed for foreign exchange is more important than its proportion to total expenditure, because the truth of the matter is that unless India can secure foreign exchange, then the plan for

industrial expansion falls down.

India can hire labor; it can build plants by use of local labor and local currency, but if it cannot put into the plants the heavy capital equipment which must be purchased outside of India, and for which they must pay in foreign exchange, the local expenditures become ineffective.

I am speaking quite flatly when I say that India is anxious and hopeful that aid will be made available to it by the United States, in terms of foreign exchange.

#### UNITED STATES AID TO INDIA SINCE 1947

As you know, since 1947, the United States has made available to India, through the United States Government and through United States private organizations, over a half billion dollars. There has been \$329 million appropriated by the Congress of the United States.

In addition, the Congress made the wheat loan, amounting to \$190 million, and various other grants have been made available through the United States Government, all totaling \$538 million.

In addition, about \$50 million has been made available by private

United States organizations.

Senator AIKEN. You mentioned a wheat loan there.

Mr. Cooper. Yes.

Senator AIKEN. Could India use more of our farm commodities surplus more effectively?

Mr. Cooper. Yes.

Senator AIKEN. Have they made any request for participation in

our Public Law 480 program?

Mr. Cooper. Yes. If I may just finish the problem of foreign exchange needs, I will speak to the point of agricultural commodities. Senator Aiken. You finish that, and then will you elaborate on this matter?

Mr. Cooper. Yes.

# INDIA'S NEED FOR FOREIGN EXCHANGE

Considering the projected gap of about a billion dollars in foreign exchange availabilities, the proposals of the President have great

significance.

He has proposed that \$70 million be made available for development assistance, and \$10 million for technical assistance. I think the \$10 million for technical assistance is applicable to the gap, because in addition to capital equipment, India must have some technical assistance.

I know that under the Constitution, you can only appropriate for one fiscal year, but I have recommended that it be projected for a

period of 5 years.

If the \$80 million recommended by the President should be appro-

priated for 5 years, it would total \$400 million.

But, as I said at the beginning of my statement, the amounts which are appropriated for development assistance are not always available for foreign exchange. The Congress has provided, and the ICA follows the requirements, that a portion of the total appropriation should be allocated to the supply of agricultural commodities, and India has been taking about \$20 million a year out of development assistance funds in surplus products.

If this should occur again, and the full \$80 million is appropriated, that would mean actually \$60 million would be left for foreign

exchange to purchase capital goods.

If the Congress decides as a matter of policy that India should have assistance, then I submit that the amount which is requested, \$80 million, is certainly reasonable in light of India's size, its great progress, and its need of foreign exchange for insuring the success of its 5-year plan.

I have come here to urge that the Congress reaffirm that it is in the interest of the United States Government, and of India, and in accord with our friendship, and our desire to help democratic governments and peoples—to give assistance to India. I do urge that these reasons argue that the full sum should be authorized and appropriated.

I have said in several statements that, considering the need of a

billion dollars in foreign exchange, and the fact that only two sources are really available in the world for substantial aid, that is, the United States and Russia, I hope that the United States would be able to do a reasonable part.

I have thought that a minimum of \$75 million a year available for foreign exchange and \$10 million for technical assistance, were

reasonable amounts; but \$80 million is before the Congress.

# NEED FOR U. S. SURPLUS AGRICULTURAL COMMODITIES IN INDIA

Now, Senator Aiken has asked me whether there is need for our

surplus agricultural commodities in India.

There is such need. The Indian Government has been studying this problem. India has increased its agricultural production, and is now able to substantially supply its needs, yet it is a fact that the last 5 years have been rather remarkable crop years. There were no crop failures.

If there should be a crop failure, it might involve a deficit of as much

as 500 million bushels of grain or more.

Looking ahead to its 5-year undertaking, it is believed that it is necessary to provide food reserves against a possible crop failure,

and insure adequate food supplies for their people.

Second, deficit financing to the tune of about \$2.4 billion will be necessary over the next 5-year period, that is in rupees, and as spendable income will increase, the currency will be expanded. The pressure of currency, an expanded local currency, against normal supplies of food and cotton, could produce a rise in prices and the danger of inflation. In fact, small advances in the cost of food grains have recently occurred.

If there should be a crop failure, or if expanded purchasing power should press against the existing supplies of food and fiber, it would be necessary to find grain where they could, and, pressed by time, the

country might be faced with inflation.

So a very important decision has been expressed. It is that it is basic to the success of the 5-year program that reserves of food grains, and some fiber, shall be provided. I am sure the Indian Government would negotiate with the United States to consider the purchase of wheat and some cotton, and perhaps dairy products, and perhaps other commodities.

[Deleted.]

Recently in the Parliament, the Minister of Finance, and also the Minister of Agriculture, made it clear that they are considering the provision of such reserves.

Senator AIKEN. You mean the market there would possibly be a

continuing one?

Mr. Cooper. Yes; there could be.

Senator AIKEN. If we once got into that market?

Mr. Cooper. Yes; as their income increases, their people will want to spend more for food and clothing; and looking ahead, beyond the needs of their 5-year program, it is possible there might be developed normal markets and mutual trade.

[Deleted.]

Senator AIKEN. Do you personally favor the trade?

Mr. Cooper. Yes, and very strongly.

Senator SMITH. Would that be in addition to these amounts we have here for fiscal year 1957?

Mr. Cooper. Yes.

[Deleted.]

Mr. Cooper. I hope this authorization will be made. It would have great effect in assisting India's 5-year plan. If we could assure India this certainty of food supply-not full assurance but practical assurance of a food supply—during the second 5-year program, and protection against inflation, and against crop failure, it would have great and striking effect. It would be a very human and friendly act.

If we do not do this, they will, of course, move to other sources. Since we began talks, because of rising prices, India has bought wheat. I do not want to be one of those who argue, "If we won't do it, the

Soviets will." I doubt that the Soviets have full food supplies for internal needs. But they might say, "We will furnish you all that we can."

Senator AIKEN. I think it would be good policy and good economics, both at home and abroad, to enter into some arrangement of this kind, on the assumption that they do not reduce their normal purchases from Burma or any other friendly country.

They assure us that they will not do that, don't they, Mr.

Mr. Cooper. I believe India would continue normal purchases, at least until they reach sufficiency.

[Deleted.]

Senator Fulbright. I do not want to stop discussion on this point if you have more to say on it, but I do want to ask about another subject.

Mr. Cooper. Senator Smith suggested one question relating to food,

and I would like to answer it.

He asked me, "Do you make this suggestion as an addition to the appropriations which are being considered in the pending bill?" Is that correct?

Senator Smith. We have here \$70 million for development assistance and \$10 million for technical cooperation, a total of \$80 million.

My question is whether what you are asking is in addition to those amounts, or whether it would mean just raising that total a little bit?

Mr. Cooper. Yes, it is in addition—the supply of agricultural commodities.

Senator Smith. It is in addition and separate?

Mr. Cooper. Yes; the Congress has, in the past, joined the question of disposal of surplus with regular appropriations. It has done so by providing that a certain percentage of the appropriation shall be used for surplus products under section 402.

As I have said, last year you made available \$50 million for India, for development. Yet, \$20 million was taken by India in surplus products. I think if we had authority to deal with this question under 480, instead of 402, we would be able to negotiate fairly and equally

a surplus program of real size.

I do hope that this committee, and I say it plainly, I hope that whatever happens with respect to the 480 program, for food supply, will not diminish this appropriation, and I will tell you why. First, I do not think you do so with other countries. You consider appropriations and food separately. And second, as I have been trying to point out, one of the great needs of India during its 5-year plan is to have funds available for foreign exchange, to purchase in the United States and elsewhere capital equipment, the machinery, the steel and other foreign products, which are absolutely a requisite for industrial advancement.

These two matters are separate, and I would hope that when action is taken upon 480—as I hope it will be—you will keep in mind that the provision with respect to surplus grains will not meet India's need for foreign exchange to purchase capital supplies.

They must have dollars or pounds or marks available to buy abroad.

## WHERE WILL INDIA PURCHASE ITS SUPPLIES?

Senator Hickenlooper. If foreign exchange is made available through our action, is India going to buy supplies from Russia with this foreign exchange?

Mr. COOPER. That is entirely in the hands of the Congress or the executive department. The Congress or executive department can

provide the terms on which our appropriations can be used.

I assume you are drawing attention to the fact that a part of the appropriations that have been provided have been used to purchase equipment in other countries. Isn't that correct?

Senator HICKENLOOPER. Yes, on occasion.

Mr. COOPER. That is true. Indian and other countries have used a part of the funds the Congress has made available for the purchase of supplies in countries other than the United States.

But that is a matter which is entirely——

Senator Fulbright. Were they supplies that were available elsewhere at comparable rates?

Mr. Cooper. No. Of course, they could purchase supplies cheaper,

at lower prices in other countries.

For example, steel is one of the greatest needs of India. It can buy

steel cheaper in Europe or Japan.

Senator Fulbright. If we require them to purchase it here at higher prices, it is equivalent to charging them a higher interest rate, or putting on them another burden. I mean, that is purely a subject of negotiations.

If it is a loan, or if it is a gift, we can put whatever conditions we

want on it.

#### SOURCES OF LOANS TO INDIA

Mr. Cooper. Yes. I think in the past the Congress, and the Executive, have made decisions that it would be better from the standpoint of trade, and our allies' interests, that a portion should be used for outside purchases.

Senator Fulbright. Has India used the facilities of the Export-

Import Bank any?

Mr. Cooper. Companies in India have tried. Do you have the amounts borrowed from the Export-Import Bank?

Senator Fulbright. I understood they had not been using it.

Senator AIKEN. The World Bank they have used.

Mr. Cooper. Yes. India has borrowed over \$100 million, I think \$126 million.

Senator Fulbright. From the World Bank?

Mr. COOPER. From the World Bank.

Senator Fulbright. How much have they borrowed from the Export-Import Bank?

Mr. Cooper. Oh, yes, the wheat loan was financed by credit.

Senator Fulbright. By the Export-Import Bank?

Mr. Cooper. I should know, Senator, but I do not have the exact

figures on Export-Import loans.

Senator Fulbright. I do not know the exact figures, either, but I am under the impression India has not used the Export-Import Bank. Why, I don't know, either.

Mr. Cooper. Well, I can talk about that.

TATA, the largest steel manufacturer in India, produces about 800,000 tons annually of India's 1,300,000 capacity. It wants to expand capacity to almost double its capacity, and it asked the Export-Import Bank for a loan. It wanted a loan in the United States, because its equipment is in part United States equipment and because its techniques and a part of its engineering are based on United States experience.

They wanted to deal with the United States, although they knew the cost of equipment would be 15 or 20 percent higher than the price of

equipment in Germany or Great Britain.

They did not borrow from the Export-Import Bank because they believed they would pay two premiums: One would be the premium in price; and the second would be the premium in the higher interest rate over interest rates which they could secure elsewhere.

The interest rate, they thought, was too high. Senator Fulbright. What was the interest rate?

Mr. Cooper. I don't know what proposition finally was made. I do not know the final decision on the Export-Import rate.

But I do know that TATA thought it too high, considering that

they had to pay a premium price for their equipment.

Senator Mansfield. Are the Germans extending long-term credits on fairly low interest rates all over the world?

Mr. COOPER. Yes. I want to get to that.

Senator Smith. Ambassador, are you familiar with volume 3 of our presentation books?

Mr. Cooper. No, I have not seen the book; no.

Senator SMITH. On page 37, this book shows there have been no Export-Import Bank loans to India from the period 1951 to 1955.

I suppose you just answered the question why this bank was not

used in connection with the Indian development plan.

Mr. Cooper. Yes. They can go to the World Bank and get a lower rate of interest, and more favorable terms.

Senator SMITH. That answers that question.

Mr. Cooper. Yes. And, of course, when they do so, they can take the proceeds of the loan and purchase any place in the world, and perhaps be able to purchase at lower prices. That is another reason.

Senator SMITH. Now, on page 39 of the presentation book it shows that under the mutual security program loans to India amounted to \$45 million in fiscal year 1955, and \$37.5 million in fiscal year 1956, but no loans are proposed for fiscal year 1957. Why is that?

Mr. Cooper. Well, the figures on loans are actually worked out in ICA after appropriations. Actually, the Indian Government today is

taking whatever appropriations are made available through Congress, and is agreeing to repay a larger percentage of the apropriations than any other country that is receiving help under the mutual aid program.

Last year it was 75 percent. Seventy-five percent of the appropria-

tion was under an agreement to repay in local currency.

I assume that this year the ICA will make the same provision. There is nothing strange in the omission. The provision is made by the ICA.

Senator Smith. There is nothing here in the way of a loan.

Mr. Cooper. I can say this: I just have received a note saying the State Department has not shown loan figures for any country for fiscal

year 1957. They are worked out after appropriations.

But whatever is made available to India, there will be agreements that part shall be in the form of loans. And I say that up to this time, India has agreed to repay a higher percentage of aid than any other country in the mutual aid program.

Senator Fulbright. I would like to ask you about a different subject

before we adjourn.

Mr. Cooper. Yes.

# EFFECT ON UNITED STATES-INDIAN RELATIONS OF MILITARY AID TO PAKISTAN

Senator Fulbright. What effect on India has our military assist-

ance program to Pakistan had?

Mr. Cooper. It is true, that the difficulties between India and the United States grow chiefly out of United States military aid to Pakistan.

As you know, there were grave difficulties between India and Pakistan after partition. There were riots and bloodshed during the transfers of population, and since then there has been the dispute over We know that the aid agreement with Pakistan was in the framework of collective security.

The Korean war was on, the war in Indochina, and Soviet and Com-

munist China pressure was evident.

But from India's view, a cease-fire had been obtained between Pakistan and India in Kashmir, and India considers it an unfriendly act that the United States placed military supplies in the hands of a country with whom they had been actually engaged in warfare and when a cease-fire had only been secured.

India also believes that to the extent of our military aid to Pakistan, they must increase their own defenses. They must take the limited resources which they want to devote to economic progress, and put it

This they resent very much. [Deleted.]

Senator Langer. You just told us that India is spending \$440 million a year for military equipment.

Mr. Cooper. If I gave \$440 million, I certainly want to correct that, Senator.

Senator Fulbright. That is what you told us was India's military budget. That is not big for a country of India's size.

Mr. Cooper. The amount is approximately \$450 million. **\$450** 

million.

It is being revived as an issue in India today, this question of military aid to Pakistan.

Senator Fulbright. Is it still a principal issue there?

Mr. Cooper. Yes, the most important.

Senator Fulbright. The principal stumbling block to good rela-

tions between us and India; is that right?

Mr. Cooper. Yes. They consider it. If I might give an analogy, it is as if the United States should provide aid to either France or Germany when they were in a dispute and if there were fears of each other's intentions.

Senator LANGER. Mr. Ambassador, when Bulganin and Khrushchev

visited India, did they also visit Pakistan?

Mr. Cooper. No, they didn't go to Pakistan. Later, Mikoyan visited Pakistan, in March of this year.

Senator SMITH. Let me develop that thought a little further now.

Mr. Cooper. Yes.

Senator Smith. Are the Indians afraid of a Pakistan attack in spite of Pakistan's relatively small population compared to the enormous Indian population?

Mr. Cooper. I do not know whether this should be on the record or

not.

Senator SMITH. Let's take it off the record.

The CHAIRMAN. Off the record. [Discussion off the record.]

The CHAIRMAN. If you do not have a military program with Pakistan, you probably are going to break up the Baghdad arrangement.

Senator Fulbright. It is a question of degree, to some extent. They are going overboard on it.

The CHAIRMAN. It is a very mean situation, of course.

Mr. Cooper. What I have tried to point out is that, in my view, it is a question of degree, of volume, of planning.

Senator Fulbright. That is right.

Mr. Cooper. But if no consideration is given to these points, then you run into danger.

I have taken a lot of time.

## SOVIET ECONOMIC PENETRATION IN INDIA

I wanted to dwell briefly on one other factor, and that is the recent Soviet economic penetration in India and in Asia.

Senator Smith. There are some questions here the staff has prepared

on that

Mr. Cooper. I will just take a few minutes on it.

We all know what we think about the new Soviet tactics. But it is a fact that the Soviets are entering India and what are called the uncommitted countries in Asia, and that they are paying particular attention to India.

They recognize the importance of India, and beginning with the visit of Bulganin and Khrushchev, and followed now by Mikoyan, are making efforts to make trade deals and to form economic associations

in India which will continue.

They are going at it in several ways. One is by agreements to provide basic industries, an example being their agreement to furnish a steel mill on easy terms, and low rates of interest, 2½ percent interest, and 12 years credit. I don't think the 12 years is too easy.

Second, by trade negotiations for furnishing needed capital goods to India, such as steel, the Soviets have recently agreed to furnish India a million tons of steel over 3 years, upon credit, to be paid in Indian goods.

Now, none of this is a gift, and India is paying the market price for

it. But it represents new economic penetration and association.

Third, and I think one of the most important, the Soviets are offering to take workers, skilled workers, and semiskilled workers, and technicians, in large numbers and to train them as cadres which can return to India and train other workers.

They are fabricating the steel mill which they have agreed to install, at a cost of about \$115 million. They have entered into an agreement to furnish a million tons of steel, which would be about one-sixth of the requirements of India, over the next 5 years, at the going market price, presumably a total of \$115 to \$120 million. And they are entering into training programs.

Day before yesterday, when I testified before the House Foreign Affairs Committee, someone asked if I considered all this a political

turning of India to Russia.

I think it is necessary to look at the full facts of economic and political associations with India. There are several forms of economic association. First, there is nearly a billion dollars of foreign investment in India. Great Britain has about \$900 million of the investment; the United States is second, with about \$100 million. Second, there is about \$2 billion of trade between India and other countries. Great Britain has about 30 percent; the United States about 15 percent; and the Communist countries only have 1 percent today.

There has not been a large Soviet association in these fields thus far. Not only Soviet Russia but Great Britain and Germany have agreed

to build steel mills in India,

If India is taking something over \$200 million of Soviet products for which it agrees to pay, it should not be considered as a political association or alinement with Russia.

But Russia is vigorous in its activity, and so are other Communist

countries of Eastern Europe.

I have a statement which I would like to put in the record, indicating the economic activity of Russia and the Communist countries in the last year.

[The following statement was subsequently received for inclusion in

the record:

## SOVIET AID TO INDIA

Soviet bloc countries, principally the U. S. S. R., have provided a variety of technical assistance, bilaterally or through the U. N., to India on grant or cash reimbursable bases. In the last 18 months to 2 years, the U. S. S. R. and, to a smaller extent, Czechoslovakia and Hungary have also begun to offer development assistance on loan or cash reimbursable bases, usually on favorable or easy terms. The outstanding offer, which has been accepted, has been that of the U. S. S. R. to construct a complete steel mill in India, providing a credit of about \$100 million equivalent for this purpose with an interest rate of 2½ percent and repayments scheduled over a 12- to 15-year period. A second large offer of the U. S. S. R. consists of the arrangement to deliver 1 million tons of steel over a 3-year period at or near the world price. Repayment arrangements for this deal are not as yet concluded, but are expected to be in terms of commodities.

Now, we have had our program in India for many years; we don't have to turn and twist with every move of Russia. But I do say, with the great need of India during the next 5 years for capital goods and equipment, if assistance is not given by the democratic countries, there will be a great and understandable compulsion to turn for aid where it can be secured; and certainly Russia desires to come into close economic association with India.

We know that they want to for political purposes. It is for political purposes primarily. But second, there are great trade possibilities in India now and in the future, and I am certain that Russia recognizes

the value of building future markets.

# HOW THE UNITED STATES CAN MEET THE SOVIET ECONOMIC CHALLENGE

One of the points I have urged strongly and do urge strongly is that the United States must not withdraw from this area by a refusal to give aid, but that it meet Russia on its own terms, in its challenge of economic competition, and show that we are constant and certain.

Now, India has a gap of a billion dollars in foreign exchange. If the United States should say today, "We will fill this gap," I do not believe India would take a billion dollars from the United States to the exclu-

sion of other countries.

I believe also that if Russia should offer a billion dollars to close the gap, they would not want the full amount to the exclusion of other countries.

But I know that they will take aid from Russia. I know they are very interested, and hopeful that the United States will be of assistance. We have been of great assistance in the past. I know the political questions which concern our relations with India and their difficulties are at times frustrating, but there are overriding considerations which must be kept in mind.

I have pointed out the large economic association that exists between India and the democratic countries, including our own, up to this point. Even in the field of military supply, India has looked

chiefly to Great Britain.

# INDIA'S COMPETITION WITH COMMUNIST CHINA

Further, I am sure that India does know that, in fact, it is, in its 5-year plan, in competition with Communist China in Asia and that their success or failure will be watched to determine whether a democratic system or a totalitarian system can make a speedy and successful industrial and economic advance. It is important for democratic institutions that India does succeed.

If India should fail in this 5-year plan because of its inability to secure external assistance in the shape of capital goods, which brings up the necessity for foreign exchange, then its own people may believe

that it is not possible to advance by democratic methods.

Russia is seeing to it that China will not fail, through inability to secure capital goods, and there is the possibility that it will create temptation among peoples who do not have great experience in the practice of free government, to look to a system which can give them economic advancement.

# INDIA'S GREAT MOTIVATION IS INDEPENDENCE

Whatever may be the opinion of some people about personalities in India, I am sure that their great motivation is that India shall be independent. India has been free from colonial domination—and it has been a western domination—for 9 years. Certainly they do not want to come again under political or economic domination from the West or from the Communist countries.

That determination is the strongest force and power that will keep them from coming under Communist domination. They do not want

to lose independence.

That is a factor we ought to consider. The United States is helping a great many countries which it hopes will become some day democratic and have the support of their people in democratic institutions.

and have the support of their people in democratic institutions.

India's leaders are determined that their political and economic progress shall be democratic, and I think it is true that, more than any other country in Asia, Prime Minister Nehru and his Government have the support of their people.

We disagree on some matters of basic policy. There are also current matters which create difficulties between us. One that I have mentioned is Pakistan. Another one is Goa, and there are others.

But India has a stable government, imbued with the strong determination to be democratic. And, as I see it, as world problems are settled, the disagreements between India and the United States, which arise from differences in approach to those problems, will be removed.

There is no basic disagreement on the question of the maintenance

of democratic institutions.

I hope that the Congress will not let these current issues take their mind away from these substantive points.

#### CHANCES OF INDIA GOING COMMUNIST

Further, India's leaders do not believe it is ever going to be Communist. One thing which irritates them is the suggestions from United States sources at home that they might go Communist. It really irritates them.

Not long ago I talked to one of their leaders, who was educated in a Christian college in India—his first teachers were Americans—and he said, "A great deal I have been able to accomplish is the result of great American teachers." And he said, "I oppose communism as much as President Eisenhower; but," he said, "it hurts me when I read that the United States believes that it must keep India from becoming Communist."

It is true that there are forces working in India which, under different circumstances, might have influence. But their leaders are firm against communism internally.

I do not have to point out that if, by any unfortunate circumstances, India should go the way of China, the situation of the democratic countries would not be good. It would be a rather black day.

#### INDIA'S VIEWS ON ATD

India does not officially ask for aid—that is true. But, after aid is appropriated, they do talk to us about it, and we do make agreements as to how it should be spent, for they know it has been of valuable

assistance during these first years of independence. They know that they are discussed pretty vigorously in the Congress and in the press, which is the free tradition of our country, one which we value. They know, also, that India is singled out at times for special treatment. It is cut when others are not. That does not tend to improve our position.

We have been generous and magnanimous. We are the oldest country in freedom. We have strength, and we should be magnanimous and generous and patient. I believe, if we are, that it will pay great

dividends.

# COMMITTEE APPROVAL OF ADMINISTRATION'S APPROPRIATION REQUEST FOR INDIA URGED

I want to urge, Senator George—you, sir, because of my great respect for you—and the members of this committee, that this great committee approve for India the full sum of \$80 million.

Senator Sмітн. Which do you mean ?

Mr. Cooper. The \$70 million plus the \$10 million for technical assistance.

Senator SMTH. What about their foreign exchange deficit? Do you want to add to the figure of \$80 million the billion dollar deficit you have been talking about?

Mr. Cooper. No. I am simply now urging that the appropriation of \$80 million which has been requested by the President shall be

authorized.

# INDIA'S NEED FOR FOREIGN EXCHANGE

Senator Fulbright. We had a visitor at luncheon yesterday who said they hoped to get a loan for that. As you were at that luncheon, you heard what he said; did you not?

Mr. Cooper. Yes.

Senator Fulbright. How did that strike you?

Mr. COOPER. No; he said this, if you will remember: That with all of the aid that would become available, India would still need additional sums.

Senator Fulbright. That concerned the sum you were talking

about—the balance of payments.

Mr. Cooper. And he hoped sometime in the next 2 years that India would be able to negotiate a dollar loan.

Senator FULBRIGHT. That is right.

Mr. Cooper. From the United States.

Senator Fulbright. But as I understood it, he meant a real loan;

did he not?

Mr. Cooper. A real loan? Yes. Frankly, I believe that what India would rather have than anything else, if it could be possible, would be to negotiate a dollar loan. No one has said this to me officially, but I think it is correct.

Senator Fulbright. He was a very responsible man. He did not pretend to speak for the Government, but he was speaking from the

point of view of their needs.

Mr. COOPER. He is an outstanding industrialist in India.

#### EXTENDING AID THROUGH THE UNITED NATIONS

Senator Fulbright. One other thing I would like to ask: Do you have any views about using the United Nations more than we do for assistance in this international field? Should we siphon more of our

aid through the U. N., or not?

Mr. COOPER. I think it would have value, and certainly psychological value, if the United States would propose that a certain sum should be made available to the United Nations. We could there, among other things, ascertain whether the Soviet Union would be favorable to such a plan.

I don't think you would want to dismiss in total our program now, and propose such a fundamental change. I think it would be wise to

test it with some part of our program.

Senator Fulbright. I was not proposing any drastic change. You remember Ambassador Lodge indicated he thought it would be an improvement.

Mr. Cooper. Yes.

Senator Fulbright. And he thought because of the extreme sensitiveness of India, it might appeal to them more than the ordinary country if more would be done in that respect.

I just wondered what you thought about it.

Mr. Cooper. Yes. I would favor trying a part of our appropriation.

## EDUCATIONAL EXCHANGE PROGRAM IN INDIA

Senator Fulbright. Is the educational exchange program doing any good in India? Is it brought to your notice at all?

Mr. Cooper. Yes, it is. They have developed a good arrangement for the exchange program, which, you know, is the Fulbright program.

After a year or so of trial and error, this decision was made: That it would be better to select students in India who were actually at work, who had finished their college work and who were actually using their abilities and experience in work, and select those to come to the United States to get further training. They return to India with the assurance of positions in which they are able to use that training at

At first they found they were sending students here who would go back to India and not have anything to do, and their training could not be put to use.

But foday, those who come to the United States are mature students,

who go back ready to go to work.

Senator Fulbright. If I understood you, you said the Russians are offering a large increase in a training program of similar nature. Mr. Cooper. Yes.

Senator Fulbright. And you thought that was one of the most dangerous things they could do.

Mr. Cooper. Yes.

Senator Fulbright. Do I conclude from that that you think we might well increase our exchange program with India, or not?

Mr. Cooper. It is highly accepted; I mean it is accepted and highly

approved and respected in India.

Senator Fulbright. You think it helps?

Mr. Cooper. Yes.

## SOVIET TRAINING PROGRAMS IN INDUSTRIAL FIELDS

The Russian activity is in a different field. They are proposing training programs in industrial fields. They are offering to take a number of technical people or supervisors of the higher levels to Russia, put them into the factories, for example into steel mills, to learn skills, just as our Americans went to Russia in the twenties and taught them skills.

The men who have been trained in Russia will come back, and be-

come cadres for training others.

Of course, we can see the possibilities of such an arrangement.

I would like to say this: India has not accepted all of these programs without thought or consideration. I understand that the proposal of the Russians to train a large number of steel workers has been pretty carefully worked out by the Indian Government and, while they are going to send some, they are not going to send any large amount.

It should also be kept in mind that in these negotiations with the

Soviets, the Indians have not taken any gifts from them. I have got off the subject suggested by Senator Fulbright.

Senator Fulbright. I know it was slightly different. But in the idea of taking people and indoctrinating them, there is that much similarity in the two things.

Mr. Cooper. Yes.

Senator Fulbright. I heard that the Russians had offered-I do not know whether it has been accepted or not—to build a technical institute, in Burma, and to staff it with Russians.

Mr. Cooper. That is true.

Senator Fulbright. Have they done anything like that in India?

Mr. Cooper. No.

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Senator Fulbright. Have they offered to do it?

Mr. Cooper. I have not heard of it.

This is a list of countries in which Russians are working: Egypt, India, Syria, Indonesia, Afghanistan, Burma, Sudan, and Yemen.

If this drive of the Russians is to be met, it will call for more than our Government efforts. In some way people in private industry must find ways to train people.

I do not mean in India alone, for in many countries, there is a des-

perate need for training workers.

I do not think our country can afford to underestimate the efforts that the Soviets and the Communist countries are making, an effort which will continue and expand.

[Discussion off the record.]
The CHAIRMAN. Any further questions of the Ambassador?

Senator Smith. Mr. Chairman, I would like to ask one more question.

METHOD OF FINANCING SECOND FIVE-YEAR PLAN

I think probably you have answered this: The chart which we have here showing the Indian second 5-year plan shows foreign assistance from various sources, of \$1.7 billion; and the footnote says "The Colombo plan and United States and other sources."

Now, how much of the total is anticipated from the United States, if any? On what basis is it anticipated? Has the United States entered into any sort of commitment in this regard, or has it given any indication to the Indian Government as to what might be expected?

I understood from what you said before, we had no part in this at all. Mr. Cooper. Yes. You have asked me questions that I have not

answered, and I will answer them.

This figure, \$1.7 billion, represents that part of the financing of the second 5-year plan in which they hope to obtain foreign assistance. They hope to reduce the \$1.7 billion by about \$140 million, which will come from Canada, Australia, New Zealand.

Then there are other sources. The three steel mills that are to be built, which will represent some savings in foreign exchange, will further reduce the gap. But at last, there remains something over

a billion dollars for which there is no assurance of aid.

That is a gap which they hope can be partly filled by aid from the

United States in the 5 years.

Now, you have asked me, has any commitment or any assurance been given India? I can say to you categorically, no, because none of us could promise to the Government of India that the United States would aid in filling this gap.

That is solely, as I know, in the discretion of the Congress.

Senator Smith. Are you recommending it?

Mr. Cooper. I am recommending that we do. All I can recommend at present under the pending legislation is that Congress authorize and appropriate the sum of \$80 million, which will be to that extent an application against this gap.

If it were done for 5 years, which I recommend, that would repre-

sent \$400 million.

Senator Smith. That is the \$70 million and \$10 million, making

\$80 million which is proposed in fiscal year 1957.

Mr. Cooper. If this year you should authorize and appropriate \$80 million, and it is done for 5 years, a total of \$400 million would be reached; there would still be left at least \$600 million needed by India which is uncovered, and that would have to be filled by help from other countries. Some will come from Russia, or by new investment in India, or by additional earnings that India might make in foreign

Senator SMITH. Would the International Bank be available for

anything like that?

Mr. Cooper. Yes, to the extent that the International Bank makes

loans to India, it would reduce this gap.

It is projected that they may receive \$100 million in loans from the World Bank during the next 5 years. In fact, TATA Industry, the firm which I was speaking of as having made application to the Export-Import Bank, is now making its application to the World Bank for a loan to expand its steel production.

Senator Smith. I have no further questions.

The CHAIRMAN. Any other questions?

If not, Mr. Ambassador, we appreciate your being here with us

again.

Mr. Cooper. Well, Senator George, I am appreciative of the opportunity of coming before the committee and having a chance to talk to you.

(Whereupon, at 4:55 p. m., the committee adjourned, to reconvene

at 10 a. m., Friday, May 11, 1956.)

# **MUTUAL SECURITY ACT OF 1956**

# FRIDAY, MAY 11, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to recess, at 10:05 a.m., in the caucus room, Senate Office Building, Senator Theodore Francis Green presiding.

Present: Senators George (chairman), Green (presiding), Mans-

field, Wiley, Smith (New Jersey), Aiken, and Capehart.

Senator Green. We will proceed with the hearing.

If anyone who has a statement would like to present it fully, he may; but if he thinks that the same result would be achieved by putting it in the record, he may do that. I leave it to the individual witness.

The first witness on the list is Mr. George J. Burger, vice president of the National Federation of Independent Business.

Mr. Burger. Good morning, sir. Senator Green. Mr. Burger.

# STATEMENT OF GEORGE J. BURGER, VICE PRESIDENT, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, WASHINGTON, D. C.

Mr. Burger. I am George J. Burger, vice president in charge of the Washington office of the National Federation of Independent Business. I am appearing here solely for the membership of the federation.

We represent independent business and professional people in all vocations from all parts of the country. We have the largest directly supporting membership of any business organization in the country.

Our position on legislation is dictated directly by our membership. We poll our members on all important issues, and are committed by their majority vote. No officer or group of officers is permitted to speak or act officially for the federation until our entire membership has been polled.

#### POLL ON FOREIGN AID

Our members were polled through Mandate No. 216—official publication of the federation—on the question:

Are you for or against maintaining foreign aid as a permanent feature of our Nation's foreign economic policy?

Senator Green. Excuse me. In the draft I was following you do not have the word "economic."

Mr. Burger. I beg your pardon. Our members were polled:

Are you for or against maintaining foreign aid as a permanent feature of our Nation's foreign policy?

I stand corrected, Mr. Chairman.

It is to be noted on the Mandate the instruction is given to the members:

Before voting, see arguments "for" and "against."

The argument for:

In the political cold war, foreign aid almost certainly saved Western Europe from communism. Europe doesn't need more aid, is now expected to help the United States in aiding Asia. Stout defense of United States at Bandung last year is proof that mutual assistance helps can work there, too. Militarily, the United States with annual expense of a few billion has made possible creation of allied forces equal to nine times our ground forces, twice the number of air squadrons, equivalent of our naval forces. Economically, aid has helped sustain the United States economy. Over three-fourths of funds have been spent in the United States. More, the 1954 rise in exports helped float the United States economy through the recession.

The argument against:

Since July 1, 1945, United States taxpayers have ponied up about \$60 billion for foreign aid. While the program was temporary at first, it is now on a permanent basis. Meanwhile our Nation has gotten the highest deficit of any country in the world. Those who espouse aid forget that you can't finance or buy friendship. Consider, in Korea the United States bore almost 90 percent of the burden. Where were our European allies? Now the switch is to Asia. But India, an Asian country which has taken foreign aid, is flirting with Communist China. Indonesia which would get aid, has indulged in ventures sure to wreck its economy. Question here is just who is kidding whom?

Mr. Chairman, at that point I would like to read into the record a short press story that appeared on March 7, an AP story:

NEW DELHI, March 6 (AP).—The United States provided three-fourths of the total foreign assistance India received during her first 5-year plan. A finance ministry pamphlet issued today said that of a total of \$685 million in external assistance, nearly \$500 million had come from the United States mutual cooperation program.

Senator Green. May I interrupt again. Our drafts of your statement may be a little different, but my draft in the first line stating the argument against says, "up about \$69 billion." As I understood you to read, you said "\$60 billion."

Mr. Burger. Sixty-nine—my eyesight—that is correct. There is no

change in the original draft. Thank you.

The result of this poll, as it appears in Mandate No. 217, shows: Sixteen percent for continuance of foreign aid; 80 percent against; and 4 percent no vote.

Senator Green. How large a poll? Mr. Burger. Over a hundred thousand.

Senator Green. Do you have the exact number?

Mr. Burger. It would run between 100,000 and 125,000.

As a matter of record, I request the privilege of having made a part of the permanent record of this hearing, Mandate Bulletins Nos. 216 and 217 as they refer to our action on the foreign-aid program.

Senator Green. About how long are those bulletins?

Mr. Burger. Here they are, Mr. Chairman. Senator Green. They will be so included. (The documents referred to are as follows:)

## HELP CONGRESS PREPARE FOR 1956 SESSION

#### YOUR PERSONAL VOTE WILL HELP SHAPE ISSUES

1. H. R. 7225 (Cooper, Tenn.) Increase social security tax in 1956 to 5 percent on employers-employees (2½ percent on employer; 2½ percent on employee) and to 3.75 percent on self-employed (increases now scheduled for 1960).

2. Are you for or against action by Congress to make it illegal nationally for retailers to limit the number of pieces of goods customers may buy, when sold

below cost as "leader" items?

3. Are you for or against maintaining foreign aid as a permanent feature of

our Nation's foreign policy?

4. H. R. 3892 (Curtis, Mo.) Enact a 20 percent withholding tax at source on co-op patronage refunds, whether paid to members or allocated on books for later payment.

5. Are you for or against Congress' exempting from Federal taxes the first \$15,000 of business profit spent by incorporated and unincorporated firms for

business improvements or expansions in any one year?

Before voting, see arguments "for" and "against"

#### VOTE YOUR BALLOT

#### Tear off here for mailing

## National Federation of Independent Business

### Ballot No. 216

CityState		
To My Congressman: Following is my opinion on the	measures l	nereon. I
have drawn a line through those on which I do not care to ve	ote:	
•	For	Against
1. H. R. 7225. Raise social security taxes in 1956		
2. Outlaw "one to a customer" limits on loss-leader goods		
3. Congress maintain foreign aid on permanent basis		
4. H. R. 3892. 20 percent withholding tax on co-op refunds_		
5. \$15,000 business tax exemption to promote plant ex-		
pansions and business improvements		
Suggestions		

## 3. Argument for

In the political cold war, foreign aid almost certainly saved Western Europe from communism. Europe doesn't need more aid, is now expected to help the United States in aiding Asia. Stout defense of United States at Bandung last year is proof that mutual assistance helps can work there, too. Militarily, the United States with annual expense of a few billion has made possible creation of allied forces equal to nine times our ground forces, twice the number of air squadrons, equivalent of our naval forces. Economically, aid has helped sustain the United States economy. Over three-fourths of funds have been spent in the United States. More, the 1954 rise in exports helped float the United States economy through the recession.

# 3. Argument against

Since July 1, 1945, United States taxpayers have possed up about \$69 billion for foreign aid. While the program was temporary at first, it is now on a permanent basis. Meanwhile our Nation has gotten the highest deficit of any country in the world. Those who espouse aid forget that you can't finance or buy friendship. Consider, in Korea the United States bore almost 90 percent of the burden. Where were our European allies? Now the switch is to Asia. But India, an Asian country which has taken foreign aid, is flirting with Communist China. Indonesia which would get aid, has indulged in ventures sure to wreck its economy. Question here is just who is kidding whom?

Following is the national summary of votes cast on issues carried in the Mandate No. 216. This summary has been forwarded to Members of the Congress, to members of the permanent Senate Small Business Committee, to members of the House Small Business Committee, to other interested congressional committees, members of administrative Government and Government agencies.

#### [Percent]

	For	Against	No vote
1. H. R. 7225: Raise social-security taxes in 1956. 2. Outlaw "one to a customer" limits on loss-leader goods. 3. Congress maintain foreign aid on permanent basis. 4. H. R. 3892: 20-percent withholding tax on co-op refunds. 5. \$15,000 business-tax exemption to promote plant expansions and business improvements.	14 58 16 79 76	85 37 80 15	1 5 4 6

#### BURDEN OF FOREIGN AID

Mr. Burger. Mr. Chairman and members of the committee, as these expressions come from what can properly be termed the "grassroots" of our Nation, we believe it should be of importance for the committee and the Congress in shaping future action on this major subject.

To substantiate this statement, the Governor of Utah wrote me

under date of December 13, 1955, and I quote:

I think the people as a whole would be against foreign aid if they were given an objective picture of the entire foreign-aid program. Even as matters stand, what with all the Government's propaganda in favor of foreign aid, I think a good segment of our people are opposed to this giveaway scheme.

It has been reliably reported, as late as April 26, over one-half of the present Federal public debt can be traced directly to involvement in foreign wars and the extension of aid to foreign governments

and peoples.

It is also reported that the worst feature of our foreign-aid programs is the fact that during periods of deficit financing, we have put the American taxpayers deeper in debt by borrowing money for the foreign-aid programs. This has cost another \$18 million-plus, and the interest on the interest of this borrowed money added more than \$8 billion to the total of the foreign aid programs since the end of World War I.

It is to be noted in a recent report appearing in the New York Times of April 21, it says:

NATO costs so far set at \$312 billion—

and further quoting from the Times-

Seven year bill for United States alone is \$252 billion. Thirteen other lands contributed the balance.

Again, it is to be noted as reported in the press April 27, and I quote:

Lag in United States orders pinches Belgium. Her industrial leaders fear adverse impact of drop in contracts for NATO.

In my executive position with the federation, and in my travels throughout the Nation meeting with the average independent businessman, the question is put to me time and again: "When is Congress going to call a halt to the giveaway program before it wrecks the economic structure of our Nation and breaks the backs of its people?"

Mr. Chairman, this is an actual, truthful statement presented to me time and time again, nationwide. I answer: "The question must

be answered by the Congress of the United States."

I think it can be said that the public at large is well aware of the fact of the constant inspired, alarming statements used by the various administrations as to the peril we face unless this foreign aid of all descriptions continues.

It is my belief that the public now believes that most of these statements are merely smokescreens in an attempt to justify the continu-

ance of this giveaway program.

Mr. Chairman, I have tried to keep this statement as short as possible and, at the same time, present to the committee what could be called: Mr. Citizen Speaks.

#### AID RACE WITH RUSSIA FEARED

The argument is now being used for the continuance of foreign aid to combat reported, alleged aid from the Soviet Government. It's beyond me to understand how that Government could make good or deliver foreign aid in the same capacity as our own Government has done-where, on the other hand, it is a matter of public record that the Soviet Government has yet to make its adjustments on the lendlease arrangement our Government so graciously extended during the critical days of World War II.

It is my belief, judging on performances, that any pledge made by the Soviet Government can be looked upon as merely pie crust, and in substantiation of this belief, it was reported in the press under date of January 27, 1956: "Martin suspects a Russian trap-fears

aid race may lure United States into bankruptcy."

It would be our opinion there is real food for thought in this expression by such an outstanding Member of the Congress as the Hon. Joseph P. Martin.

## LACK OF APPRECIATION FOR AID

Just recently, to my surprise—and it happened within the past 60 days—I found that an American citizen returning from the Middle East after a year or two stay, remarked: "If you want to see some evidence of appreciation of our foreign-aid program, look at what is stamped on the currency of that country, 'Yankee Go Home'."

I wonder how many other recipients of aid from this Government share the same lack of appreciation—all at the expense of American taxpayers. From authoritative reports we are receiving it is a safe conclusion that this must be happening, either directly or indirectly, in the case of many other recipients of our foreign-aid program.

It is interesting to note in the international section of the New York Times of Wednesday, January 4, 1956, it said: "Booming Europe forced to slow industrial gain-struggle to keep prosperity from inducing inflation believed won in 1955.

So there is justification for the Congress to stop, look, and listen before continuing this obviously unneeded foreign-aid program.

## DISCONTINUANCE OF AID URGED

It would appear to small business generally that the continuance of such extensive foreign-aid program may be a smokescreen to further the best interests of international business corporations—all at

the expense of the American taxpayers and small business of this Nation—and in line with this reasoning we are quoting herewith an editorial appearing in a Scripps-Howard newspaper under date of May 4, 1956, titled "Murky Billions":

If Congress doesn't appropriate a dime this year for foreign aid—military and economic—the Government will start the fiscal year July 1 with \$6.6 billion of old appropriations still not spent. If the President's request for \$4.9 billion more is granted, the foreign-aid program would start the fiscal year with \$11.5 billion in unexpended funds.

Much of this is for military equipment—stuff that requires in Pentagon jargon a long lead time between order and delivery. Granted even that, \$11.5 billion is a lot of money to have kicking around in "reserved" and "unreserved" funds.

a lot of money to have kicking around in "reserved" and "unreserved" funds.

This is another compelling reason why Congress which has let this program grow like Topsy for several years, will be failing its responsibilities if it doesn't start a thorough study of the aid program and an unbiased reappraisal of future needs.

In conclusion—solely in the interest and welfare of our own Nation, and in behalf of the people we represent, independent business and professional men, nationwide, we say: "The time for Congress to close Uncle Sam's international gift shop is now."

Senator Green. Thank you very much.

Are there any questions? You may be excused.

Mr. Burger. Thank you very much, Mr. Chairman.

Senator Green. The next witness is Mrs. Robert L. Lamkin, president of the Virginia State Division of the American Association of University Women.

Mrs. Lamkin. Mr. Chairman.

Senator Green. You may proceed, Mrs. Lamkin.

# STATEMENT OF MRS. AMY S. LAMKIN, PRESIDENT, VIRGINIA DIVISION, AMERICAN ASSOCIATION OF UNIVERSITY WOMEN

Mrs. Lamkin. The American Association of University Women welcomes this opportunity to appear before the Senate Foreign Relations Committee and to go on record in support of the Mutual Security Act of 1956, H. R. 10082.

First, I would like to introduce myself and identify the organization

 ${f I}$  represent:

My name is Amy S. Lamkin, and I am here to represent the American Association of University Women through its international rela-

tions and legislative program committees.

I currently serve as the president of the Virginia Division of the AAUW, and represent the association on the national conference on the United Nations Food and Agriculture Organization. In the immediate past I have also served on the association's legislative program committee.

Our organization consists of over 139,000 women college graduates, organized into 1,339 branches in the 48 States, the District of Colum-

bia, Hawaii, Alaska, and Guam.

One of the association's major activities is to foster study programs which are carried on by the branches in fields such as international relations; a corollary activity is the pursuit of a legislative program which promotes the goals recommended by study groups.

#### SUPPORT FOR FOREIGN AID

Acting upon the recommendation of its international relations and legislative program committees, the association, at its biennial convention meeting in Los Angeles in June 1955 adopted as part of its legislative program the following item:

Support of a constructive foreign policy \* \* \* designed to develop conditions favorable to democracy, economic well-being, security, and peace throughout the world, through such measures as \* \* \* continuation of a sound technical assistance program.

Against this background of authorization, I should like to explain briefly our support for the foreign-aid program as blueprinted by the administration for the fiscal year 1957 and to request that this committee and Congress give serious consideration to the possibility of increasing authorizations over the amounts requested by the administration for certain types of foreign aid in nonmilitary categories.

It is our considered judgment that a foreign aid program will be a feature of United States foreign policy for many years to come. After 9 years of United States and United Nations investment and experimentation in aid and development programs, the members of the American Association of University Women, along with millions of other United States citizens, are convinced that the inspiration or motivation for foreign aid has not been and is not simply the fact of the cold war. The world's needs will continue for several years to command our material and spiritual resources, whatever the status of United States-U. S. S. R. relations.

In our view, the foreign-aid program is neither charitable nor a philanthropic undertaking, but a constructive answer to world problems of an economic, social, and military nature.

These problems are not all of the same origin. Some are artificially created by the nature of the cold war; others would exist regardless of East-West tension.

Nor can the lay citizen hope to be as well informed on the military aspects of the program as on its goals for technical assistance and economic development in underdeveloped countries.

## PARTICULAR IMPORTANCE OF NONMILITARY AID

Our association's primary interest is in the nonmilitary part of the program. We accept the judgment of the Department of Defense that a dollar spent for the support of the military establishment of one of our allies buys more security for the United States than the same dollar spent at home.

By the same token, the word of the Commander in Chief, President Eisenhower, that a dollar spent for economic assistance is worth five spent for military support convinces us that more of the value to the

United States of nonmilitary foreign aid.

We would, in consequence, single out as categories warranting larger authorizations than the International Cooperation Administration currently requests, for both technical assistance and developmental assistance.

Impressed by Mr. Hollister's program to this committee that many projects submitted by the ICA staff were deleted in the preparation

of the 1957 budget, we urge a reconsideration of the most promising of such projects in technical assistance with parallel efforts in develop-

mental assistance.

It is our conviction that United States security and prosperity are inextricably woven into a cloth common to the rest of the world. Our material blessings—6 percent of the world's population, 7 percent of the world's area, and almost 50 percent of the world's industrial production, as well as agricultural surpluses which plague economists and politicians alike, are a matter of awe not unmixed with envy elsewhere in the world.

It is, indeed, a "national insurance policy" for our own security that the United States spread skills and seed capital for increased

production throughout the world.

The United States goal should be to retain our own high level of per capita production and consumption while simultaneously aiding other peoples so to increase their own production and consumption that our relative share of the world's total is a shrinking one.

#### REVIEW OF FOREIGN AID SUPPORTED

This association agrees with friendly critics of the foreign-aid program within and outside the Congress that the time for a thorough

review of the aid program has come.

As a people we need to review the goals and progress of the past 9 years; we need to analyze the strengths and weaknesses of the program and to revise our machinery—bilateral, regional, multilateral—accordingly.

Ways and means must be found to speed the time gap between the planning stage and the actual undertaking of aid programs. There is crying need for fresh and imaginative proposals for capitalizing on United States skills and resources and for speeding the recruitment of overseas personnel.

To agree that such a review is desirable, however, does not affect our conviction that immediate passage of the Mutual Security Act

for 1956 has a first priority.

Not only does this association not agree that the United States can afford to mark time in its aid program while undertaking such a review, but we are firmly convinced that the present situation makes imperative an increase of flexibility in the program, hence increased discretionary authority in the hands of its administrators.

The entrance of the U.S.S.R. into the field of building up underdeveloped economies has rocked preconceived ideas of that state's strategy, tactics, and goals, but it has not undermined the case for combating world poverty through increased production, or for alleviating world sickness through education and medical treatment.

The Soviet move will not be put into final perspective in a matter of days or even months. We know only that it will require the height of diplomatic skill to make the Communist program serve world

rather than Communist interests.

Meanwhile, the resources for entering this kind of healthy competition must be in the hands of United States diplomats; their imaginations must not be limited by a premature drying up of the resources they can put into play.

## "BLANK CHECK" FEATURES OF BILL ENDORSED

For these reasons, the American Association of University Women approves specifically of the "blank check" features in H. R. 10082: the \$200 million Presidential Emergency Fund, the transfer of funds provision, the \$100 million fund for the Middle East and Africa, the \$100 million fund for the Far East.

While recognizing that no Congress can irrevocably bind its successor, we nonetheness urge also that the Congress give favorable consideration to the modest long-range commitment requested by

the administration for authorization by the Congress.

We have expressed our belief that the aid program must be flexible. We are convinced that promise of continuity in our aid program is as vital as its flexibility.

The sum involved, \$100 million, while scarcely insignificant, is a minor part of the total aid program and the moral commitment of

the 84th Congress could do much to strengthen the program.

Congress sees the wisdom in and necessity for a 10-year highway building program for the United States; we submit that the need for long-range planning of dams, roads, irrigation schemes, and similar developments overseas is at least as pressing.

## THE SPIRIT OF GIVING IS IMPORTANT

A foreign premier recently reminded us that the spirit of giving is as important as the fact of the gift. We consider this a timely reminder and urge the Congress not to underestimate public support for the objectives of the Mutual Security Act of 1956 and public willingness to support through taxes a program of which it ap-

proves.

The logic of foreign military aid supports four-fifths of the appropriation requested, but we believe that in the long run the mutual security involved in nonmilitary aid—for developmental assistance, for technical assistance—here I think is an omission—both U. N. and United States, for UNICEF, and for U. N. programs to relieve refugees, and so forth—will be the best investment the United States can make for world security.

We thank vou.

Senator Green. I thank you very much, Mrs. Lamkin.

Mrs. LAMKIN. We thank you for the opportunity of presenting the statement.

Senator GREEN. Any questions? Senator WILEY. No questions.

Senator GREEN. The next witness we will call is Dr. Flemmie, Kittrell, representing the Women's International League for Peace and Freedom.

STATEMENT OF DR. FLEMMIE P. KITTRELL, REPRESENTING THE WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREDOM. WASHINGTON, D. C.

Dr. KITTRELL. Mr. Chairman and members of the Senate Foreign Relations Committee:

I want to thank you for this opportunity of appearing before you this morning.

I am Flemmie P. Kittrell, of 3200 Warder Street N. W., Washington, D. C., representing the Women's International League for Peace and Freedom, United States Section, with offices at 214 Second

Street N. E., Washington 2, D. C.
The Women's International League for Peace and Freedom is one of the nongovernmental organizations which, under article 71 of the United Nations Charter, was granted consultative status with the Social and Economic Council. We also have this status with the following specialized agencies: UNESCO, FAO and UNICEF.

During its 41 years of existence, since it was founded by Jane Addams in 1915, the Women's International League for Peace and Freedom has had as its chief objectives: total, universal disarmament and the establishment of an economic and social system that would

serve the needs of all rather than a few.

It is therefore natural that my organization—as I am sure you all do-desires to fulfill the English historian, Arnold J. Toynbee's prediction when he says that—

our age will be best remembered because it is the first age since the dawn of history in which mankind dared to believe it practicable to make the benefits of civilization available to the whole of mankind.

## STRIVING TOWARD HIGHER STANDARDS OF LIVING

This belief is written into the U. N. Charter. One of the fundamental concepts is the promise that the United Nations shall work for the economic and social betterment of peoples. It was formulated by nations and statesmen who realized that there could be no peace and stability in a world where two-thirds of the people did not have enough to eat, where millions died of diseases that could be cured, where more than 180 million families were ill-housed, where Asia, with over half of the world's population, produced only 11 percent of the world's income, where the resources of many lands lay untouched because nobody knew how to extract and use them.

It is clearly stated in the preamble and chapter IX of the charter that one of the primary aims of the world organization shall be-

to promote better standards of life in larger freedom-

and to this end international machinery shall be employed—

for the economic and social advancement of all peoples.

The United Nations has gone further than to merely state these

aims. International machinery has been set up.

The Women's International League for Peace and Freedom urges support of a continued program of technical assistance and nonmilitary foreign aid as expressed in H. R. 10082.

#### A MORAL OBLIGATION

Others may point out that such aid is our most effective weapon against communism; but if Russia did not exist and communism were only a theory in a book, the United States, as the richest country in the world, would still have a moral obligation to help needy people help themselves in education, health, and improved means of livelihood.

In a world in which disparities of wealth are so great, it is our moral duty to do what we can to close the gap by use of means already

proven to be effective.

It is part of the laws of the universe that in doing this we contribute to our own welfare, and fulfill the obligation to our own citizens. For men will rise or fall together. Abraham Lincoln said that this Nation could not remain "half-slave and half-free."

It is equally true that humanity as a whole cannot continue indefinitely half in misery, half in comfort. Our prosperity, our security, the future of democracy and our chances for peace, are linked irrevocably to conditions and economic progress among the other

countries of the world.

Economic crises and despair often drive underprivileged people to the desperate remedies offered by totalitarianism. On the other hand, economic and social welfare promotes the growth of peace and democracy.

Therefore, technical assistance and economic aid are the means of creating the conditions for peace—which in today's world is indivisible.

It is for all of us or none.

#### LONG-RANGE PROGRAMS

But to achieve our purpose, we must extend our cooperation and assistance in ways that have been demonstrated to be effective. Certainly the way to make our assistance the least effective is to give it reluctantly, a little at a time, and only after strenuous annual debates in Congress.

From experience gained through the Marshall plan we have learned that if continuity is impaired, gains achieved at heavy cost may be

sacrificed.

Therefore, we urge your support of President Eisenhower's suggestion for authorization of long-range programs. A long-range program makes possible better planning. It makes possible the securing of better personnel. This makes for more economical and efficient carrying out of the program. It gives stability to this phase of our foreign policy.

## NONMILITARY AID

Another method for assuring the effectiveness of foreign aid is that economic aid should be kept separate from military aid. The Women's International League for Peace and Freedom urges that economic aid based upon the need of the people be kept wholly apart from military assistance.

People in new and in underdeveloped countries need to experience a greater measure of individual liberty, self-government, education and progress, than can grow when aid is conditioned on the acceptance of

military obligations.

## ROLE OF THE UNITED NATIONS

A further effective method for extending aid which has been recently emphasized by President Eisenhower and other national leaders is the channeling of aid through the United Nations.

Our organization was gratified to see the statement made by Ambassador Lodge on April 29 at the United Nations headquarters when he said:

The present world situation is one which requires our giving new emphasis to multilateral programs \* \* \* .

We sent a telegram to Ambassador Lodge supporting this effort of our Government to channel more aid through the U. N. An economic program contributed to by many nations and administered by the United Nations, on the basis of need, with no strings attached, can be clearly a world development program with self-respect.

As a beginning toward basic economic development, the United Nations has, since 1951, had on paper a plan for a Special United Nations Fund for Economic Development (SUNFED), a proposed fund of \$250 million, of which the United States would contribute

its share.

Until recently the administration has indicated it was not yet prepared to make such a contribution unless conditions made possible large-scale disarmament. While universal disarmament would lift the burden of arms from the world and release funds for world development, our organization believes that it is possible and necessary during this period, when disarmament proposals are bing considered, to approve the organization of and participation in SUNFED.

In the report of the Tenth Session of the General Assembly of the United Nations submitted by two members of the House Committee on Foreign Affairs, Congressman Chester E. Merrow and Congressman Brooks Hays, the league noted the importance given to economic aid through multilateral programs channeled through the United Nations.

We wish to give the strongest encouragement to this direction in our foreign-aid policy and increased appropriations for these

programs.

The United Nations already operates not only in the realm of study and discussion and recommendation, but in the paddy fields and forests of southeast Asia, in the deserts of the Middle East, in the high plains of Latin America.

Every day, in over 60 countries, men and women drawn from as many nationalities, each with his own special training and experience to share, are working to impart to others who are in urgent need of that technical know-how and experience without which economic development is impossible.

All this is the result of a daring belief translated into action through the United Nations technical assistance program and its specialized

agencies.

Technical assistance is not a new invention. It is as old as the history of intercourse between organized communities. What is new is the fact that for the first time an effort is being initiated under the direction of an international organization to make available the whole body of human knowledge for the benefit of those governments and peoples that wish to draw upon it.

While we recognize certain values in programs of economic development initiated by individual countries and private enterprise, we believe such programs carried on by and through the United Nations are preferable because they furnish adequate safeguards against economic exploitation, avoid fear of imperialistic aims or military com-

mitments, and inspire the confidence essential to achieve democratic

and peaceful development.

Such multilateral programs are also significantly successful because they are cooperative. Recipients contribute as well as receive foreign

I may say, as we give our foreign aid it is a two-way process: That while we give from the economic point of view, we receive a great deal from the people in terms of appreciation.

## PARTICULAR ASPECTS OF MUTUAL SECURITY PROGRAM STRESSED

In summary, the Women's International League for Peace and Freedom wishes to encourage the fullest measure of support for the following programs included in H. R. 10082: \$170 million for development assistance; \$15.5 million for UNETAP; \$1.5 million for technical cooperation programs of the OAS; \$2.3 million for UNREF; \$7 million for escapee program; \$10 million for UNICEF; \$15.4 million ocean freight; the new request for \$100 million for Middle East and Africa; the Special Fund of the President; and \$5.95 million for research reactor projects to further peaceful uses of atomic energy.

We are glad to join with 12 other organizations in a joint statement

supporting the excellent work of the UNICEF program.

We feel that these are the programs that should enlist the careful, critical, and generous support of all men and women of good will.

Thank you, Mr. Chairman, and the committee.

Senator Green. Thank you. Senator WILEY. No questions.

## PERSONAL EXPERIENCE OF WITNESS

Senator Mansfield. I would like to ask a few questions.

Dr. KITTRELL. Yes.

Senator Mansfield. You have spent some time in Asia; have you not.

Dr. KITTRELL. Yes, I did.

Senator Mansfield. In what countries, particularly?

Dr. KITTRELL. I was in India.

Senator Mansfield. Under what auspices were you there, Doctor? Dr. KITTRELL. I was under the ICA; and before that, I was in the Fulbright program.

Senator Mansfield. How much time did you spend in India?

Dr. KITTRELL. Altogether, 3 years.

Senator Mansfield. So you speak from firsthand knowledge of that particular part of the world.

Dr. KITTRELL. I think I do. Senator Mansfield. I see.

Dr. KITTRELL. Yes. Senator Mansfield. I just want to compliment you on your statement, Doctor, and to say that I personally appreciated your emphasis on the nonmilitary aspects of the aid program.

Dr. KITTRELL. Thank you very much.

Senator Green. The next witness will be Mr. Frank S. Ketcham, representing the council for social action of the Congregational Christian Churches.

STATEMENT OF FRANK S. KETCHAM, REPRESENTING COUNCIL FOR ACTION, CONGREGATIONAL CHRISTIAN CHURCHES, SOCIAL WASHINGTON, D. C.

Mr. Ketcham. My name is Frank S. Ketcham. I am an attorney,

with offices at 1828 Jefferson Place NW., Washington, D. C.

I am appearing before your committee today to testify on behalf of the council for social action of the Congregational Christian Churches with respect to the program of foreign economic aid.

I am chairman of this church agency's committee on christian citizenship. The council is composed of a board of 18 persons elected by the General Council of the Congregational Christian Churches, which is the representative body of our 5,536 churches and 1,310,572 members.

The council for social action has been given the responsibility by the general council of helping the individual churches make the Christian gospel more effective in society in the areas of international relations, race relations, and economic affairs.

I should like to make clear at this point that, according to our policy, each individual church and each national board speaks only for itself. In my capacity as a witness today I am, therefore, speaking only for the council for social action of the Congregational Christian Churches.

At this point, Mr. Chairman, I would like your permission to insert two articles for the record: One entitled "A Critical Situation in United States Foreign Aid," which was prepared by the international relations committee of the council for social action and was unanimously approved by that council. This paper has been sent out to 5,500 of our church leaders all over the United States. And the second paper I would like to insert into the record is entitled, "Congregational Christian Resolutions on Technical Assistance," and contains the texts of resolutions adopted by the General Council of the Congregational Christian Churches, and by regional conferences in Iowa, New Jersey, Nebraska, and Northern California.

Senator Green. How long are they?

Mr. Ketcham. They are about four pages in all, sir.

Senator Green. Very well, they may be made part of the record. Mr. Ketcham. Thank you.

(The documents referred to are as follows:)

CONGRESSIONAL CHRISTIAN RESOLUTIONS ON TECHNICAL ASSISTANCE

1. Resolution adopted by the General Council of the Congregational Christian Churches at New Haven, Conn., 1954:

"Whereas the extension of all good things of the earth to all people has always

been among the missionary motives of the church: Be it

"Resolved, That we commend all governments in the practice of exchanged technical assistance, and look for their development on a multilateral pattern, to the benefit of presently underdeveloped populations and eventually of the whole human community.

2. Resolution by the Congregational Christian Conference of Iowa, adopted

at Grinnell, 1955:

"We, the members of the Congregational Christian Conference of Iowa, believing that all men are members of the family of God and have responsibility one to another in His sight, do resolve:

"(1) That we advocate full and continued support of the expanded technical

assistance program of the United Nations.

"(2) And recommend to the churches of our fellowship that they join in

making this concern known to our duly elected Senators and Representatives."

3. Resolution adopted by the Middle Atlantic Conference of the Congregational Christian Churches, Glen Ridge, N. J., May 1955 (in part):

"We, the delegates to the annual meeting of the Middle Atlantic Conference

of Congregational Christian Churches, resolve that:

"(1) A program of economic and technical aid to underdeveloped world areas is of utmost importance in strengthening the free world in its fight against communism.

"(2) The United States Government is to be commended for embarking upon a plan of sharing atomic materials and skills with other nations for the purpose

of raising standards of living."

4. Resolution proposed by the Committee on Social Action of the Nebraska Conference of Congregational Christian Churches and adopted by the Nebraska

Council of Churches, 1955:

"We find that financial support for international agencies continues to be a very modest investment for peace which seems to be amply justified and could probably be increased. We strongly support technical assistance and support the president's proposal that it become possible for the United States to make advance commitments in order that United Nations and other countries may do advance planning in technical cooperation."

5. Resolution adopted by the Northern California Congregational Conference.

Mav 1953:

"Because of the magnitude of the problem in undeveloped areas, private agencies cannot do the job of technical assistance required, alone, but governmental assistance when requested is necessary: Therefore, be it

"Resolved, That the Northern California Congregational Conference in session at Stockton supports the program of technical assistance to undeveloped areas; and be it further

"Resolved, That whenever possible this effort should be channelled through the agencies of the United Nations."

## A CRITICAL SITUATION IN UNITED STATES FOREIGN AID

An Analysis With Recommendations for Action by Members of the Congregational Christian Churches Prepared by the International Relations Committee of the Council for Social Action

NOTE.—While the following is not a CSA policy statement, its basic point of view is supported in numerous CSA policy statements and also in resolutions adopted by the general council.

#### THE PRESIDENT'S PROPOSAL

President Eisenhower has appealed to Congress to approve a greatly expanded foreign aid program, to start July 1, 1956. The actual amount appropriated by Congress last year for the total mutual security program was \$2,700 million. For the coming year the President is asking for \$4,859,975,000. The bulk of this is to be spent for military programs and military support.

While the committee is not opposed to a military defense program, it believes that much greater emphasis should be put on economic and technical aid. The

figures are as follows:

	1956 appropriation	Asked for 1957
Development assistance Technical cooperation (including contributions to U. N. and OAS programs).  Asian economic development fund Middle East and African development fund Foreign atomic reactor projects	\$162,000,000 153,000,000 100,000,000	\$170,000,000 157,500,000 100,000,000 100,000,000 5,950,000
Total	415, 000, 000	533, 450, 000

If Congress appropriates all that is asked, the United States will respond to the present need and the present situation with only about \$100 million more than last year.

#### THE COMMITTEE RECOMMENDS

1. That the members of our churches support, as a minimum, the amounts requested for economic aid, with emphasis on Asia, Africa, and the Middle East. 2. That the members of our churches urge congressional approval of a longterm commitment, involving at least \$100 million in each of the next 10 years. (This is the administration proposal.)

#### SPECIFIC ACTIONS

If you are in agreement, these are some of the things you will want to do: Let the President know you support his appeal.

Urge the President to explain the situation and the need to the American

people.

Write to Mr. John B. Hollister, Director of the International Cooperation Administration, Washington, D. C. (He is a key person and should hear from those who favor economic aid.)

Write or speak to your Senators and your Congressman. (Congress has regularly reduced the amounts for economic aid requested by the admin-There is important opposition in Congress, both to the size of the new program and to long-term commitments.)

Help to educate the public through local meetings, letters to your newspaper and, where possible, seeing to it that these viewpoints are heard on

radio and television.

The next few weeks will be crucial.

#### ANALYSIS

The newer and underdeveloped countries, the principal recipients of United States nonmilitary aid, have three chief goals. They are resolved to stay clear of any foreign domination. They are committed to programs designed to raise their living standards. They passionately desire to avoid another world war. Of these three goals, the resolution to resist direct or indirect attempts to push them around and the fear of war may at times be even more important in their minds than the need to raise their living standards.

It is partly because the United States has not fully appreciated these objectives that its foreign aid has failed to have the effect Americans hoped for. If our aid programs are basically intended to promote freedom and human well-being, we have not succeeded in proving this to those who need our help. Some non-Communist countries have actually refused our aid, while accepting aid from the Soviet Union. Where our aid has been accepted, as in India, it has

not created the desired degree of mutual confidence and friendship.

The situation is serious. The political future of Asia, Africa, and the Middle East is by no means decided. Governments in these areas are under heavy and mounting pressure from their people to make progress in the fight against poverty, to remain masters in their own houses, and to refuse cooperation with policies that might involve them in world war. These pressures can, and to some extent do, incline the governments to accept aid from any source, pro-

vided no strings are attached and the emphasis is on peace.

A government as the trustee for a nation should base its policy on a broad and imaginative view of national interest. The church and the Christian citizen cannot accept even the most enlightened conception of national interest as the final criterion of national action. There may be situations in which these two approaches are in serious conflict. This is not, however, true of foreign economic aid for this can be based upon the common interest of our own Nation and of the other nations affected. This fact of common interest makes it natural to support policies of economic aid both for reasons of national interest and because of our concern for the welfare of other nations. Christians who know that "to whom much is given, from him shall much be required," should feel obliged to support such programs even when they involve personal sacrifice.

The real conflict in America at present is between a narrow and a broad view of national interest. It seems to be true that only the kind of sympathetic imagination that accompanies a generous spirit and real human concern for the welfare of other peoples enlarges the vision of a nation so that it sees where its own true interest lies. The true interest of the United States does not mean that it should insist on a quid pro quo for foreign aid in terms of subservience to its national defense, or even in terms of expressed agreement with our foreign policy. Our chief concern should be that other nations in the free world become politically and socially healthy, that they may have the will and the strength to maintain their freedom.

## THE BASIC FOREIGN ECONOMIC AID POLICY

United States economic and technical aid should be given as part of a positive demonstration of the resourcefulness, the confident faith, and the efficiency of Western democracy. Our policies have been too defensive and negative in char-What is needed is not merely to unmask and frustrate communism but to create enthusiasm for the best things America stands for. If Asia and Africa need a better understanding of the Communist threat, the United States needs more understanding of their actual and deeply felt need. We must give our aid, not primarily as those who are afraid of something but as those who want to help meet these needs, who believe in something and who have a heart. This means that we shall not, in panicky fashion, seek to outdo Russian promises and performances. To do this will increase the suspicion that we are not interested in people for themselves but only in what they can do to help us. Not forced and reluctant competition, but loyal and resourceful partnership with all free societies in building a free and more prosperous world should be our goal.

## HOW MUCH SHOULD THE UNITED STATES GIVE?

The amounts of money we make available, in loans and grants, to other countries should be determined by the capacity of these countries to make good use of the aid, not merely by considerations of domestic budget-balancing. This is a safe criterion because, even if United States resources stretched to infinity, the amount of aid that could wisely be used is not unlimited. Our national income is now approaching \$400 billion per year. One percent of this for economic and technical aid, which is much more than we now give, will not bankrupt the United The sums we are now using in these programs are plainly not adequate to States. the need.

Many thoughtful Americans and American organizations are urging a wiser and more substantial foreign economic aid program. The matter is now before the

Congress. The committee hopes you will study—and act.

THE COUNCIL FOR SOCIAL ACTION, JOHN C. BENNETT, Chairman, International Relations Committee. HERMAN F. REISSIG, CSA International Relations Secretary.

Mr. KETCHAM. It should be emphasized that we support, as a minimum, the amounts requested in House bill 10082 for economic aid, and that we urge the Congress to approve a long-term commitment involving at least \$100 million a year for economic aid during the next 10 years.

Senator Green. What was that figure? Mr. Ketcham. One hundred million.

## AID WITHOUT STRINGS

The newer and underdeveloped countries, the principal recipients of United States nonmilitary aid, are resolved to stay clear of any foreign domination; they are committed to programs designed to raise their living standards; and they passionately desire to avoid a world

Of these three goals, the resolution to resist what they, rightly or wrongly, consider direct or indirect attempts to push them around, and the fear of war, may at times be even more important in their minds than the need to raise their living standards.

It is partly because the United States has not fully appreciated these objectives that its foreign aid has failed to have the effect Americans hoped for. If our aid programs are basically intended to promote freedom and human well-being, we have not succeeded in proving this to those who need our help.

Some non-Communist countries have actually refused our aid, while accepting aid from the Soviet Union. Where our aid has been accepted, as in India, it has not always created the desired degree of

mutual confidence and friendship.

The situation is serious. The political future of Asia, Africa, and the Middle East is by no means decided. Governments in these areas are under heavy and mounting pressure from their people to make progress in the fight against poverty, to remain masters in their own houses, and to refuse cooperation with policies which they believe might involve them in world war.

These pressures can, and to some extent do, incline the governments to accept aid from any source, provided no strings are attached and

the emphasis is on peace.

A government as the trustee for a nation should base its policy on a broad and imaginative view of national interest. The church and the Christian citizen cannot accept even the most enlightened conception of national interest as the final criterion of national action. There may be situations in which these two approaches are in serious conflict.

This is not, however, true of foreign economic aid, for this can be based upon the common interest of our own nation and of the other

nations affected.

## ECONOMIC AID SUPPORTED

The fact of common interest makes it natural to support policies of economic aid, both for reasons of national interest and because of our concern for the welfare of other nations.

Christians who know that "to whom much is given, from him shall much be required," should feel obliged to support such programs, even

when they involve personal sacrifice.

The real conflict in America at present is between a narrow and a broad view of national interest. It seems to be true that only the kind of sympathetic imagination that accompanies a generous spirit and real human concern for the welfare of other peoples enlarges the vision of a nation so that it sees where its own true interest lies.

## BROAD VIEW OF NATIONAL INTEREST

The true interest of the United States does not mean that it should insist on a quid pro quo for foreign aid in terms of subservience to its national defense, or even in terms of expressed agreement with our foreign policy. Our chief concern should be that other nations in the free world become politically and socially healthy, that they may have the will and the strength to maintain their freedom.

United States economic and technical aid should be given as part of a positive demonstration of the resourcefulness, the confident faith, and the efficiency of western democracy. Some of our policies have

been too defensive and negative in character.

What is needed is not merely to unmask and frustrate communism, but to create enthusiasm for the best things America stands for. Asia and Africa need a better understanding of the Communist threat, but the United States needs more understanding of the actual and deeply felt needs of Asia and Africa.

We must give our aid, not primarily because we are afraid of something, but because we want to help meet these needs, and because we believe in something and have a heart. This means that we shall not, in panicky fashion, seek to outdo Russian promises and performances. To do this will increase the suspicion that we are not interested in people for themselves, but only in what they can do to help us.

Not forced and reluctant competition, but loyal and resourceful partnership with all free societies in building a free and more pros-

perous world, should be our goal.

## INCREASED AID URGED

How much should the United States give? The amounts of money we make available, in loans and grants, to other countries should be determined by the capacity of these countries to make good use of the aid, not merely by considerations of domestic budget balancing. This is a safe criterion.

Even if United States resources stretched to infinity, the amount of aid that could wisely be used is not unlimited. Our national income is now approaching \$400 billion per year. One percent of this for economic and technical aid, which is much more than we now give, will not bankrupt the United States.

The sums we are now using in these programs are plainly not ade-

quate to the need.

It is to our advantage to have other nations in the free world become politically and socially healthy, so that they may have the will and

the strength to maintain their freedom.

Perhaps we would have a better understanding of the problem we face if we were to stop thinking of foreign aid and giveaway programs and, instead, concentrate on our own American concept of the general welfare.

## PROMOTION OF THE GENERAL WELFARE

One of the reasons for the great strength of the United States in the world today is to be found in the interpretation that has been placed upon the phrase "promotion of the general welfare," which appears in the preamble to our Constitution.

Throughout our history, the Congress has assisted the economic development of the United States, because to do so was to promote

the general welfare of all.

The great transcontinental railroads could not have been built without the Congress, and your forebears in the Senate did not appropriate funds to build railroads as measures to provide relief or aid to individual States—but because such appropriations promoted the general welfare of the entire country.

Much of the money came from the wealthier States, but transcontinental railroads strengthened the entire Nation—the rich States and

the less developed States, the big States and the little States.

This American principle of the general welfare should determine our policy in providing funds for the economic development of other nations in the world. The United States is the wealthiest nation in the world, and improvement in the general welfare of the world will improve the general welfare of the United States.

## CHANNELING AID THROUGH THE UNITED NATIONS

A very good way to apply our concept of the promotion of the general welfare would be to channel a larger proportion of funds for economic development of other countries through United Nations agencies. It should be emphasized that this is not an "either-or" proposition. It is not a question of providing economic development funds through the United Nations or through bilateral arrangements.

The issue is simply how much should go through the United Nations. From June 1950 through September 1955, about 2 percent of our nonmilitary assistance funds was channeled through United Nations agencies. If we were to double this to 4 percent, no serious dent

would be made in our bilateral programs.

There are certain advantages to channeling funds through the United Nations agencies. The value of the objectivity and politically impartial United Nations approach has not only been welcomed by

practically all nations, but is insisted upon by some.

The United Nations can use experts coming from many different countries, which gives it a quality of wide selection of experts. Furthermore, funds coming from such an international cooperative scheme, in which a recipient state is a member, are sometimes more politically acceptable.

## UNITED NATIONS TECHNICAL ASSISTANCE PROGRAMS

This is particularly true of the United Nations Expanded Program of Technical Assistance, which is an operation which helps nations to

help themselves.

In the past 5 years, almost \$114 million has been put into this program, more than half by the United States. But the governments which have been assisted by the United Nations have contributed counterpart funds more than double the \$114 million.

We sometimes tend to forget that this idea of technical assistance was primarily a United States concept, and that it was so extraordinarily successful in its first 3 years that the Russians had to join.

It would be folly for the United States, just as the Russians are really trying to get into the act, to fail to hold our position as the

leader in this universally popular operation.

I have mentioned the problem of the capacity of nations to absorb funds for economic development. The United Nations Expanded Program for Technical Assistance could use effectively twice as much

as the approximately \$28 million it has for 1956.

The United States could double its present contribution of about \$15 million without interfering with our bilateral programs. To do so would strengthen the confidence of other nations in the ultimate purposes of the United States. To double our contribution would be a rather nice way to embarrass the Russians, at relatively small cost to ourselves.

We should also give some consideration to the possible effect upon world public opinion if we announce our intention not to increase our technical assistance contribution, and then the Russians come along and double theirs.

I would like to thank you, Mr. Chairman and members of the com-

mittee, for listening to my statement.
Senator Green. Thank you for a very interesting presentation.

Are there any questions?

Thank you.

The next witness will be Mr. Howard W. Doerr, president of the American Superphosphate Institute.

# STATEMENT OF HOWARD W. DOERR, PRESIDENT, AMERICAN SUPERPHOSPHATE INSTITUTE, WASHINGTON, D. C.

Mr. Doerr. Mr. Chairman, my oral statement will be very brief, and it will not contain all of the text that is in the prepared statement that you have in front of you.

I represent certain domestic manufacturers of normal superphosphate. To supplement the statement filed with the committee, I appreciate the opportunity to briefly review the problem with you.

The firms that I speak for are vitally concerned with the present policy of ICA with respect to the procurement of superphosphate for Korea. We have considered it necessary to bring this problem to the attention of the committee because of our inability to obtain a satisfactory solution through officials of the ICA.

## KOREAN FERTILIZER PROGRAM CRITICIZED

It is our considered opinion that the present policy does not provide for the procurement of superphosphate at the lowest possible cost to the foreign-aid program, and that it does not always provide for fair and equitable treatment of United States bidders. Our efforts to work out our mutual problems in Korea through ICA officials have been most frustrating.

It appears that Washington officials of ICA are powerless to enforce any instructions or directives to the Republic of Korea with respect to the operation of the fertilizer program. We have received both written and oral answers to our questions to the effect that ICA cannot interfere with the Korean operation because of certain agreements

made with the president of the Republic of Korea.

#### ILLUSTRATION OF DIFFICULTIES

It has been most difficult and sometimes impossible to obtain satisfactory explanations of actions taken in Korea with respect to contracting for superphosphate. I will cite only two examples:

There is one case where a responsible United States manufacturer was the low bidder for a material requested by the Koreans as their No. 1 preference. The Koreans saw fit to reject this low offer and purchase from Japan another fertilizer material at a higher price.

This happened over a year ago. As of today, this low bidder has not received a contract nor has he ever received what, in his opinion, is an adequate explanation for the rejection of his offer.

In another recent case the Korean tender provided for a minimum of 90,000 tons of normal superphosphate. Over 100,000 tons of this material was offered by all bidders; yet the Koreans made an award for only 55,500 tons. There has been no explanation from Korea for

their failure to purchase the balance.

Until about the last 2 years, the procurement of superphosphate for Korea was handled in this country by either the General Services Administration or the Army Corps of Engineers. Under that arrangement all interested United States manufacturers attended the bid openings, knew exactly what was going on, and went home satisfied that everyone received fair and equitable treatment.

In addition, any questions arising after the bid openings or during the term of the contracts were readily settled right here in Washington. The present arrangement has been an era of confusion, indecision, lack of prompt information, and general dissatisfaction on the part

of some United States firms.

## SAVINGS POSSIBLE IF PROCUREMENT MADE IN UNITED STATES INSTEAD OF IN KOREA

With respect to the cost of this program, we submit that the Republic of Korea does not always purchase the acceptable material that represents the lowest cost per unit of plant food. In addition, by handling the procurement in Korea it is necessary for United States firms to bid through brokers with agents in Korea.

This increases the cost of the superphosphate by the amount of the

broker's profit or fee.

If the contracting were to be handled in this country, the cost would be reduced by the amount of these profits or fees, because most United States firms would offer directly to ICA without the use of a broker's services.

With respect to the cost of the types of material being purchased, on the most recent bid the Koreans could have purchased a combination fertilizer, known as ammoniated superphosphate, containing nitrogen and superphosphate, at a saving of approximately \$1.87 per ton. They refused this combination material on the basis that the Korean farmers do not know how to use the material.

Yet the record shows that in the past the foreign aid program has

supplied Korea with some 107,000 tons of this material.

Had the Koreans asked for bids for ammoniated superphosphate on the most recent bid they would have obtained an equivalent tonnage of nitrogen and superphosphate at a saving to the foreign-aid fund of about \$100,000.

We respectfully suggest to the committee that it consider including in the pending legislation appropriate language to counteract these

unsatisfactory phases of the foreign-aid program in Korea.

Specifically, we ask that the authority for the procurement of phosphatic fertilizers be returned to the United States, and that provision be made to permit bidders to offer both combination materials and straight materials, and the offers be evaluated on the basis of the lowest cost per unit of plant food.

Thank you, gentlemen.

Senator Green. Have you any specific language to propose?

Mr. Doerr. No. It would be very simple, Mr. Chairman, I think. Merely that the authority for procurement of fertilizer in Korea should be returned to the United States, something like that.

Senator Green. Are there any other questions?

## KOREAN HANDLING OF PROCUREMENT

Senator Wiley. Who does the buying, the Korean Government?

Mr. Doerr. Yes, the Office of Procurement of the Korean Government issue the tenders, do the contracting, and the Bank of Korea issues the letters of credit.

Senator Wiley. I do not know enough about the facts, but are we

to tell the Korean Government from whom they should buy?

Mr. Doerr. Well, we look at it this way, Senator: If they are unnecessarily expending foreign-aid funds, then I think it becomes a problem for someone in this country, too.

Also, if they are not buying the lowest cost material which they can

buy, which they have used and can use in the past.

Senator Wiley. We have people over there who should advise in that connection. I was just trying to get your reaction as to the advisability of putting into legislation a mandate to another Government, which we recognize as independent.

Mr. Doerr. Yes.

Senator WILEY. I want to be helpful in this. There may be other reasons why it was advisable for them to buy from Japan. We know that the trade situation in the Orient is very troublesome, and Japan is having her troubles.

I think that your allegation that there has been a wastage here of

foreign-aid funds is something that bears investigation.

Mr. Doerr. May I say something?

Senator WILEY. Yes.

Mr. DOERR. With respect to Japan, our testimony has no intention of eliminating Japan from this business. It is on a worldwide competitive basis, and the fact that the contracting is done here instead of Korea would put Japan in no different position than they are today.

Senator Wiley. Have you taken the matter up with any of the

Government authorities?

Mr. Doerr. With the Korean authorities?

Senator WILEY. Yes, or our Government authorities.

Mr. Doerr. Oh, yes, we have been for the past year or more, we have been to ICA many, many times; we have been to everybody, I think, except Mr. Hollister, himself, and even in the days when Mr. Stassen was there.

## ALLEGED AGREEMENT WITH KOREA ON FERTILIZER

And our answer has always been that when Mr. Syngman Rhee visited this country, that certain agreements were made with him, and one of the agreements was that he would be permitted to carry out the procurement of his own fertilizer.

And there have been many, many unsatisfactory things. I just men-

tioned a couple of them here.

One of the greatest difficulties is that we have such a hard time finding out what is going on over there; and when they do something

that doesn't look right, sometimes we get an explanation and some-

times we don't. But everything is so far away.

You have to hire a broker in this country, the broker has to hire an agent, he has to send someone to Korea; and all that runs up the fertilizer, which would not be necessary.

Senator WILEY. No further questions. Senator Green. Any further questions? Senator Capehart. Yes.

Let's take a look at that agreement that was made with Mr. Rhee, Mr. Chairman. I suggest that we ask the staff to secure for the exclusive use of the members of this committee this agreement which was supposedly made with Mr. Rhee whereby he was to do all of the buying in respect to fertilizer.

Mr. Doerr. That is correct.

Senator CAPEHART. I would like to see that.

#### PROCUREMENT OF FERTILIZER

One other question: We furnish all the money, do we, to buy this fertilizer?

Mr. Doerr. I think it works like most of your foreign aid. We furnish dollars to Korea under purchase authorization, and then Korea puts up counterpart funds.

Senator Capehart. Yes, I understand.

Mr. Doerr. But I understand Korea does not put up their counter-

part funds lately.

Senator Capehart. Do we earmark X amount of it for fertilizer? Mr. Doerr. Yes; we give them a direct authorization specifying what they are to buy with it. But that is done only after the Koreans tell Washington ICA what they want to buy, and then the authorization is issued in that manner.

## AGREEMENT WITH PRESIDENT RHEE REQUESTED

Senator Capehart. I am vitally interested in this agreement you say was made with the President of Korea when he was here.

Mr. Doerr. I can tell you nothing further except the answers I

get from ICA all the time, that it would violate the agreement.

Senator Capehart. Have you seen the agreement?

Mr. DOERR. No. They always talk about it being high State Department policy, and they cannot interfere with Mr. Rhee.

Senator CAPEHART. Mr. Chairman, I think we ought to take a look

at this agreement.

Senator Green. Would you like to make up a list of questions?

Senator CAPEHART. I only have one question. I would like to see a copy of the agreement that was made with Mr. Rhee whereby he was to purchase all the fertilizer.

Senator Green. The staff will make a note of that and get the

information.

Senator Smith. I would like to ask Mr. Doerr this question: Have you conferred with Mr. Tyler Wood, who is in charge of our operations there?

Mr. Doerr. I have not. But these other people who have represented these same individuals have conferred with Tyler Wood in the past. We have not conferred with him recently, because we got no place with Tyler Wood at that time, and it seemed to be futile to pursue it with him.

Senator Capehart. Mr. Chairman, one other question: Is it your understanding that Mr. Rhee insisted on purchasing everything that

was purchased, or just fertilizer?

Mr. Doerr. I cannot answer that, Senator, because I was told that-Let me see if I can put it in the right words, what the officials told methat the biggest little problem they had in the Far East was the fertilizer program in Korea, and if they interfered with Mr. Rhee, Mr. Rhee might cause considerable trouble on some other fronts, some other angle.

Senator CAPEHART. Do they produce any fertilizer in Korea?

Mr. Doerr. No.

1 - 2. .

Senator CAPEHART. None whatever?

Mr. DOERR. None. They get some from Japan, and the major portion of it ordinarily comes from here now.

Senator CAPEHART. They are big users of fertilizer, are they not? Mr. Doerr. Oh, yes, tremendous, yes.

## CONSENSUS OF PHOSPHATE INDUSTRY

Senator Aiken. Mr. Chairman, I have 2 or 3 questions. phosphate industry in full agreement, in other words, is it unanimous, that phosphate supplies for other countries should be furnished out of American stocks?

Mr. Doerr. That question has not come up. The question is-

Senator AIKEN. I am asking it now.

Mr. Doerr. No, we have considered asking for that, and we think that we have valid reasons for that, but we have never done anything about it.

Senator AIKEN. You are asking for it now?

Mr. DOERR. No, we are only asking, Senator Aiken, that instead of the Koreans doing the procurement on a worldwide basis-

Senator AIKEN. Then you do not know whether the trade, the phosphate trade, the manufacturers, processors, are in agreement or not?

Mr. Doerr. No. I can only speak for the people I represent. But I would be reasonably sure that they would all be in agreement, because I have talked it over with the other association where the rest of them belong.

#### UNITED STATES PHOSPHATE SUPPLY

Senator AIKEN. Is the supply of phosphate in the United States unlimited?

Mr. Doerr. It is not unlimited, but there is a surplus. The present

Senator AIKEN. Surplus for how long? Would it be a surplus 40 years from now?

Mr. Doerr. Well, that I wouldn't know.

Senator AIKEN. The reason I ask, Mr. Chairman, is this: I had communications from a phosphate manufacturer stating that the future didn't look so rosy. He even suggested going so far as restricting sales.

I thought that was rather a far-fetched proposal. Mr. Doerr. I hadn't heard it. It seems to me—

Senator Aiken. But we want to make sure we have enough phosphate, and high-quality phosphate for the future. I know there are unlimited amounts, probably, of low grades.

I think that is something we have to consider, because we have had repeated reports that the supply of high-grade phosphates in this

country is not unlimited, and that we must look to the future.

Mr. DOERR. Well, isn't this true: that between Montana and Utah and Florida, that we are supposed to have some such supply as some 1,000 years in the future, of phosphate rock? Rock is what governs the whole thing.

Senator AIKEN. That is a question I asked you. I do not know.

Mr. Doerr. Well, I have seen that in statements and in print. When you said "unlimited," I thought you probably meant the manufactured product itself, and I was going to answer it this way: that the present domestic production capacity is something over 18 million tons annually, and our own domestic consumption is around 11 million.

Senator AIKEN. But what about Florida and Tennessee?

Mr. Doerr. Tennessee is almost, for all intents and purposes, depleted. There is not too much there.

Senator AIKEN. How about Florida?

Mr. Doerr. Florida has ample deposits, and the West.

Senator Aiken. You know, it is a long way to bring phosphate by rail to New Jersey, and if it is decided that the foreign countries should buy their phosphate from the United States, is there any assurance that it would be the Utah-Montana deposits that were shipped to Korea, rather than the Florida deposits?

Mr. Doerr. On the contrary, I think 95 percent of it would come

from Florida.

Senator Aiken. Well, I do not pretend to know just what the situation is. I do know that the questions have been raised, and I was just directing them to you. And I think before we insist that a certain commodity which we are supplying other countries must all come from the United States, we do want to make sure of our own supplies in the future.

Mr. Doerr. Well, the industry has not made any such suggestion yet.

Thank you.

Senator Green. Thank you. You may be excused. (Mr. Doerr's prepared statement is as follows:)

STATEMENT OF HOWARD W. DOERR, PRESIDENT, AMERICAN SUPERPHOSPHATE INSTITUTE, INC.

Subject: International Cooperation Administration policy with respect to procurement of fertilizer for Korea, and the selection of acceptable fertilizer materials

It is the present policy of ICA to permit the Republic of Korea to do its own procuring of fertilizer with foreign-aid funds. This policy is a part of the overall administration policy of educating other nations in the methods of doing business with the United States and European countries. For certain countries and for certain commodities, this overall policy may be most helpful. Our objection concerns only the fertilizer procurement phase of the policy.

We believe it to be in the interest of the conservation of foreign-aid funds and in the interest of the United States fertilizer industry that this policy be

changed, and the procurement be handled, as in the past, by the General Services Administration in Washington. Our reasons are as follows:

## 1. Savings in United States foreign aid funds

When bids are filed in Seoul, Korea, and awards made by the Korean Government, United States manufacturers employ the services of a broker with agents in Korea to handle the transaction. The broker's fee or profit for this service adds approximately \$2 per ton to the cost of the fertilizer. This additional cost varies between brokers and is subject to factors such as available supply and time of delivery.

It is not unusual for Korea to purchase 100,000 tons of fertilizer on a specific bid. If the broker's fee is \$2 per ton this means that the unnecessary additional cost of the fertilizer is \$200,000. If the bids and awards are handled by the GSA in Washington, United States bidders, with few exceptions, would bid directly to the United States Government without paying the service charge of a broker. The present program for Korea includes \$60 million for fertilizer. If the additional costs were stripped from a purchase of this magnitude, it is self-evident that the savings in foreign-aid funds would be considerable.

It should be observed that the General Services Administration charges all Government agencies a fee for handling procurement. We understand this fee is one-half of 1 percent, which is only a fraction of the usual broker's fee or profit. It is also recognized that the Washington office of ICA would have additional administrative work in processing these contracts. It is doubtful if this work would involve any additional administrative expense for the reason that ICA now has a staff to handle similar work for other countries.

## 2. In the interest of United States fertilizer manufacturers

We understand and appreciate the aims of the overall policy. The ultimate aim of this policy suggests, that at the end of the foreign-aid program, countries such as Korea will be educated in the methods of procurement from the United States and other more fortunate countries. In the case of Korea, this policy will not reflect any long-range benefit to the American fertilizer industry. Under normal conditions Korea's source of fertilizer will be Japan. It is reasonable to expect, under normal conditions, commerce will be carried on between Korea and Japan on a barter basis—rice for fertilizer. The opportunity for sales of United States-produced fertilizer in this area will exist only so long as it is supported by the foreign-aid program.

If the procurement is handled in Washington, it will reduce the cost of the fertilizer and it will not work a hardship on other friendly fertilizer-producing countries. The records of GSA will show that when procurement was handled by them, most producers in other countries bid directly to GSA without benefit of brokers. We sincerely believe that this procedure was followed because of the confidence foreign manufacturers have in the ability and honesty of the GSA procurement office. In the case of bids handled in Korea it has always been considered necessary to have a representative of the bidder in attendance when bids are filed and awards made. Many representations have been made to various top officials of the ICA to correct this situation. The answer has always been, that to do so, would violate the overall administration policy on procurement and would also revoke certain agreements made with the President of the Republic of Korea.

We maintain that it is in the interest of conservation of foreign-aid funds, and in the interest of protecting an American industry that this policy be changed. We urge that the committee instruct the ICA to carry out procurement of fertilizer through established United States procurement agencies, and that the bids be requested on the basis of f. a. s., United States or other ports, Government to do its own chartering. It is apparent that corrective measures will not be taken unless required by committee action.

#### DISCRIMINATION IN SELECTION OF FERTILIZER GRADES

Korean agriculture requires the use of the three major plant foods, nitrogen, superphosphate and potash. These plant foods may be purchased as straight materials or in a combination of two or more. Korea has not always procured fertilizer on the basis of the most economical combination. A specific example:

#### Ammoniated superphosphate

This product is a combination of nitrogen and normal superphosphate in a ratio of 6 or 7 percent nitrogen and 16 percent superphosphate (6-16-0, 7-16-0). Firm offers of this product to Korea, under the foreign-aid program, has proven that

nitrogen and superphosphate in this combination can be purchased at a lower cost than can be obtained by procuring the two materials separately. There are offers on record where United States bidders have offered ammoniated superphosphate at a cost less than the cost of the two separate materials, yet Korea

rejected these offers and purchased the higher-priced straight materials.

The Koreans defended this action by claiming that Korean farmers were not familiar with the use of ammoniated superphosphate. This contention has been disproven by records prepared in Korea, and on file in ICA, which shows that the Koreans have been furnished over 100,000 tons of ammoniated superphosphate under the foreign-aid program. We are unable to find in Washington any agronomic authority, including experts who have been stationed in Korea, who will support the contention that ammoniated superphospate is not acceptable to Korean agriculture.

Present ICA officials have refused to require Korea to include ammoniated superphosphate in the bid invitations. We submit that in the interest of the most economical operation of the fertilizer program, that Korea be required to purchase acceptable fertilizer materials in whatever combination presents the lowest cost purchase. A modern American farmer would not purchase one bag of nitrogen and one bag of superphosphate, mix the two himself by crude home methods, when he could purchase the two materials in one bag at a lower cost and know that they had been properly combined. In essence, what the American farmer would not do, the Korean farmer is being forced to do.

Any favorable committee action on this problem would not provide an advantage for any individual United States manufacturer for the reason that all plants

in a position to supply Korea can produce ammoniated superphosphate.

Senator Green. Mr. Merwin K. Hart, president of the National Economic Council.

Mr. Hart. Mr. Chairman. Senator Green. Mr. Hart.

## STATEMENT OF MERWIN K. HART, PRESIDENT, NATIONAL ECONOMIC COUNCIL, NEW YORK, N. Y.

Mr. Hart. Mr. Chairman and gentlemen of the committee, my name is Merwin K. Hart. For 26 years I have been president of the National Economic Council of New York. We have upwards of 3,000 members in all 48 States.

We undertake to try to understand as much as we can of foreign policy; and in order to do that, one or more of our organization, including myself, have each year, practically every year since the war, been abroad, and sometimes in the Middle East. Prior to World War II, I had been abroad a great many times.

In the time available, there is opportunity for merely a brief statement of some of the views of the National Economic Council and for

a few observations that are deemed pertinent.

## FAILURE OF FOREIGN-AID OBJECTIVES

On the roughly \$52 billion of the American taxpayers' money thus far spent in foreign aid, the council believes that, to say the least, the actual return is vastly less than its advocates expected. It seems to have done Britain little good—the chief effect has been to put socialism right on its feet in that country.

France and Italy are as near communism today as they were in,

say, 1947.

Yugoslavia, having received about a billion of our aid, including, I understand, some of our latest weapons, is now a firm Soviet ally.

Greece and Turkey benefited greatly from American aid, but latterly the Communists have stirred up so much trouble between those countries over Cyprus, that the benefit has almost surely been lessened.

The day before yesterday, I believe one of our Embassy buildings in

Athens was stoned by a mob.

After yielding for several years to Communist influence in our policy toward West Germany and Spain, we have in recent years aided substantially in building up those two countries. I believe they are our stanchest allies in Continental Europe, though recently American actions have offended an important body of opinion in West Germany.

We have sent great aid to the Chinese Nationalists and South Korea, though the strange policies of the State Department in bottling up Chiang Kai-shek in Formosa and refusing to let MacArthur and his successors win the Korean War, make it questionable how great benefit will come in that area from any amount of further American

I believe the vast body of Americans hold that we should never abandon the Chinese Nationalists. But only a greatly firmed-up, thoroughly American policy, will enable us to spend money there wisely and effectively.

We have built bases in Iceland—and already, with a change of Government there, we have been told to get out. In all probability we will presently be told to get out of our North African bases.

Which reminds me that 8 or 10 years ago, little Panama, under Communist agitation, told us to abandon our bases there-which we obediently did.

## WASTE IN FOREIGN AID ALLEGED

In view of the above, we believe much of the money spent by the

United States on foreign aid has been wasted.

We in the Economic Council believe that this country should cease all aid, military or economic, to countries that are hostile or merely neutral; and that we should always have strings attached to any loan or gift. Otherwise, we will be throwing our people's savings away.

## MISTAKES IN FOREIGN POLICY

For many years I have tried to follow this country's foreign policy and it is impressive to see how unimpressive it is as an American policy. It has often been influenced by other countries or by some such force as communism or Zionism-sometimes by officials acting without So many times our foreign knowledge that was available to them. policy seems not to have served the vital interests of America.

The National Economic Council protested vehemently when President Truman egged on the United Nations to partition Palestine-all

at the instance of a vociferous minority.

But partition went through—and that is why we have the present

mess in the Middle East.

It is common knowledge that Britain has greatly influenced American foreign policy—as when she persuaded President Eisenhower to change his mind (in view of the then pending election in Britain) and go to the Geneva Conference.

Some of our foreign policy is made without regard to knowledge which exists in the United States about conditions in other countries,

which knowledge is ignored by our representatives who go abroad. They seem to prefer to take the word of left-wing elements in these foreign countries, just as many left-wing threats are powerful here

in the United States.

For instance, President Eisenhower, early in his administration, sent his brother Milton to Latin America. Several well-informed American businessmen, who had had business relations for years in Latin America and knew conditions there, asked to talk with him before he went.

Mr. Eisenhower refused, saying he wished to go to South America

with an open mind.

When Mr. Milton Eisenhower reached Latin America he arranged loans to the communistic government of Bolivia, which had expropriated the tin mines of Bolivia, of which there are some 5,000 American stockholders. Incidentally, I am told, the mines have been ruined. When Mr. Milton Eisenhower returned to America, these American

When Mr. Milton Eisenhower returned to America, these American businessmen asked for a conference with him. In reply he said that he had 3 assistants and 1 of these would be glad to talk with them.

#### CORRESPONDENCE WITH SPRUILLE BRADEN

Ten days ago I had occasion to write the Honorable Spruille Braden, former Ambassador and Assistant Secretary of State for Latin American Affairs, and a longtime friend of mine, commending an address he had made previously in Boston. In this letter I asked:

Who is shaping American's foreign policy? Is it solely the do-gooders? Are the Zionists and their confederates even more in control than I have thought?

In his reply he said in part:

As to the query in your last paragraph as to who is shaping the foreign policy of the United States, I am disposed to agree with your conclusion, but would add thereto another "International" of which I believe the public, and even our Congress, to be almost 100 percent ignorant, i. e., the "Homosexual International."

So far as I can make out, the Mattachine Foundation is the most active agent of this "International" in the United States. It is a real Foundation, whose Articles of Incorporation were filed in 1953 as a nonprofit organization. However, it had been active long before that date in securing legal assistance for homosexuals who were arrested.

I have always thought myself to be reasonably sophisticated, but I nearly fell off my chair when I read a copy of the Mattachine Foundation magazine, One. That is the name of the magazine, and I suggest that members of this

committee might find it interesting to examine that.

James E. Hamilton, captain and commander of the intelligence division of the Los Angeles Police, informs me "the Foundation is at least nationwide in its scope, with chapters in all major cities." The magazine One has no hesitation in referring to the foreign chapters of the organization.

The Secretary of State recently returned from his conference in Paris with the NATO group. There he recommended, and the group apparently accepted the idea, that NATO be expanded and go political. Three representatives of other countries were named to prepare a plan.

Here, Mr. Chairman, is merely the scheme of the Atlantic Union which would take away more of our sovereignty, and incidentally open up fresh vistas of foreign spending of American dollars.

### FOREIGN AID STUDY SUPPORTED

I wish to commend the proposal of Senator George that the Congress make a thorough study of foreign aid. I think this should be made by the Congress and not by the Executive for it is the Executive that does the spending.

Moreover, I remember few commissions appointed by any President

that did not recommend what the President wanted.

The present President is committed to increased and continued

foreign aid.

In conclusion, as I read the Constitution, the making and conduct of foreign policy is in part the responsibility of the Congress, for the Congress must make appropriations. I think it highly in the interest of the American people for the Congress, and particularly the Senate, to exercise its full responsibility.

Senator Green. May I ask you whether you had Mr. Braden's con-

sent to make this public?

Mr. Hart. I did.

## RELATION OF WITNESS' STATEMENT TO BILL

Senator Green. And may I again ask you what this argument of

yours has to do with the subject matter of this hearing?

Mr. HART. Mr. Chairman, that is certainly a very fair question. I think it has this to do with it. I do not know whether you gentlemen follow Kenneth De Courcy News Service, his weekly report and his intelligence digest.

It has a wide circulation I think among Government people here as it does in other countries. He has stressed in recent months, and some of you may have noticed it, the fact that in many of the countries abroad and among some American representatives there was a degree of homosexuality which was being used by people who knew about it for blackmail.

I certainly would mention no names even of the countries, but you can find it all there in his publications of the last 6 months, and I believe that this is something that most governments turn away from understandably, and yet it is a great factor, and is a great factor in making for weak public officials who otherwise would be strong if they did not have this particular weakness, and certainly it does not tend to reduce the amount of spending of the Americans' tax money. I think it is tied up with the question of the volume of spending and with the method, the care with which it is spent.

Senator Green. You regard this as an argument against further

foreign aid?

Mr. HART. I think it is an argument in favor of watching foreign aid and keeping it down very considerably.

Senator Green. That may be, but is that for or against the proposed

bill?

Mr. HART. I am greatly in favor, we are greatly in favor, I think I have summed it up right here where I say I don't think we ought to either give or loan money to any country that is not our friend.

I do not think we should give it to those who are hostile or semi-hostile and I do not think we should give it to those who are neutrals.

Senator Green. If you are in favor of the bill in the main, have you

any particular amendments to offer?

Mr. HART. No, Mr. Chairman. All I can do is, as I have tried to do, to make some general suggestions. I have read portions of the bill, enough to see how highly technical it is. I certainly would not undertake to phrase suggested amendments to it, but we stand absolutely on this statement here, for what you may think it to be worth.

Senator Green. Are there any questions?

Senator Capehart. I have a couple.

## APPROPRIATING DIRECTLY TO DEFENSE DEPARTMENT

Would you recommend appropriating the money directly to our own defense establishment?

Mr. HART. You mean rather than doing it through foreign aid as

we call it? This is for military aid you mean?

Senator CAPEHART. I think there is some \$3 billion in the bill for

military aid.

Would you be in favor of appropriating that \$3 billion to our own national defense establishment and permitting them to spend it in any country wherever they thought was to the best interests of the United States?

Mr. HART. That is a question, Senator, that I could not express a

very exact opinion on.

I do not think it makes much difference to the taxpayer. I would think the spending might be in plainer view if you kept it right where it is.

Senator Capehart. Do you think it is necessary at any time for our national defense establishment to spend any money in any foreign

country?

Mr. HART. Yes. I think the money we have spent in helping to brace up Germany has been well spent. I think in Spain, I have been in Spain every year I think for 9 years, and I have watched the developments there, and I think, as I said in my statement, that those two countries are the most reliable, from a practical standpoint, allies that we have on the continent of Europe.

I think the money we spent in Turkey was very well spent, but I think the money we spent on Yugoslavia was thrown away. I think the hope was vain that Yugoslavia would really get very far away from

Soviet Russia.

#### SUCCESS OF ECONOMIC AID DOUBTED

Senator Capehart. So far as economic aid is concerned, would you be in favor of extending to each of the so-called undeveloped countries in Latin America, the Middle East, and the Far East, a line of credit, provided they could come in and borrow money on good projects over

a period of say, 3 years?

Mr. Hart. I do not think, Mr. Chairman, that this Congress should make appropriations or authorize appropriations for any more than the time that I think is fixed in the Constitution, for the time that appropriations can be made. And I think we should be very sparing in our economic aid to foreign countries. Much of it has done great good, a great deal of it has been wasted. What good is Iceland to us now since we have been told to get out?

Of course maybe we won't have to get out, but it is certainly disturbing to the people of this country, and I am sure it is to you gentlemen, that after we have done all we have done in Iceland, and Iceland having the importance it has, that the Communists get control.

That is what happened of course. They stirred it up, but they are

going to do that in North Africa.

I have talked with a good many people from North Africa and from Spain and Italy and Egypt, and some people not too close to the head

of the government, Nasser, in Egypt.
So far as I can see Soviet Russia today is almost in control of North Africa. Eight or ten months ago she opened up an Embassy in Libya-I have not been in Libya-which I am told is practically nothing but a desert. It is simply a center of espionage. That is what it was intended to be.

Senator Capehart. How would you propose to keep Russia from

opening up an Embassy in Libya?

Mr. HART. Well, I do not think Russia would have opened up an Embassy in Libya if we had not forced the partition of Palestine 7 or 8 years ago. That opened up a Pandora's box.

Now the practical question is, what to do now of course?

## WHAT COURSE OF ACTION IS PROPOSED?

Senator Capehart. That is my question. What do you do now? Forgetting the mistakes that have been made in the past, what would you do now if you were faced with the existing situation of Russia having opened up an Embassy in Libya as you say some months ago?

Mr. HART. Well, I do not think that the solution is to rush in and necessarily try to outbid Russia in building the Aswan Dam. not think we have been realistic enough. I don't think frankly, Mr. Chairman and gentlemen of this committee, that the Congress and particularly the Senate, which has a higher part than the House in foreign policy, has taken an active enough part. That may be a rather reckless thing for me to say, but often it has come to me that that is the situation.

Senator Capehart. Let's get back to my question.

You are very critical and I have been very critical myself in the past. You criticize now, when you bring up the point that Russia has opened up an Embassy in Libya. What would you do about it today?

Mr. HART. For one thing, I would increase the aid to Spain. I would force that aid to Spain both economic and military as fast as it

could be absorbed economically without too great inflation.

I think things are going progressively better there. I have talked with the general in command and I have talked with the man in our State Department there who handles the economic side and they all express themselves as my Spanish friends do, as satisfied. But I think they need more.

Senator Capehart. I think I can concur with you that we ought to assist Spain and they have been very friendly and very helpful. certainly agree with you in that respect. I think that completes my

questioning.

Senator Smith. Mr. Chairman, I would like to ask one question.

Senator Green. Senator Smith.

#### SITUATION IN THE FAR EAST

Senator Smith. Have you ever been to the Far East and made a study of that area?

Mr. Hart. No, sir; I have not.

Senator Smith. Now there are three danger spots there; one is Korea, and one is Formosa, and another is Indochina. We are trying to bring about conditions of stability, independence, freedom, and unification of Korea.

You are opposed to all that, I think. From your statement I gather you are not in favor of doing anything in that area and letting all of

that go behind the Iron Curtain?

Mr. Harr. No, I am not opposed to that. I am in favor—I think we have not got two better friends as I understand it anywhere in the world than Chiang Kai-shek and Syngman Rhee.

Senator Smith. I agree with you.

Mr. HART. I think we owe them a great deal. But we have fallen back so much with respect to them and we have given away so much it is going to be very hard. But I am in favor of doing whatever can be done that will reasonably promise to hold those countries, if it is possible, free.

I don't see though frankly-what is going to happen; apparently Singapore is going to go down and Hong Kong is going to go down. Apparently the Communists can take them at any time. That is going to make it harder to keep Formosa and to keep South Korea.

But I think we owe it to them absolutely to do everything we can

to hold that.

Senator Smith. I am glad to hear you say that, because I think the question of those countries going behind the Iron Curtain now and Asia being lost to the free world is a devastating danger.

Mr. Hart. I agree with you, sir.

Senator Smith. I think we must have a firm policy to deal with those questions. I am glad to hear you say what you did in this respect, Mr. Hart, because I was afraid from your earlier statement in saying you had not been there, that you might not know much about it and did not care much about it.

Mr. HART. No, far from it, I am trying to look at this as I am sure you are from a world viewpoint. But that makes it all the more necessary for us not to spend a single dollar unless we are dealing with

our friends or certainly not dealing with neutrals.

Well, I do not know, but it looks to me like aid to Nehru is fatuous. I can't see anything there. I do not believe any amount of aid would

buy Nehru. I think he has contempt for it.

Senator Smith. I do not think you can ever buy anybody. Aid is a different proposition entirely. It is whether we want to help these countries to be free and independent and be relieved from outside exploitation. That is the hope of the peace of the world, as I see it, and it ought to be part of our foreign policy. If we can do it by helping India, I am certainly in favor of helping India.

Mr. Harr. Well, I am afraid India will work out her salvation a

good deal without regard to what we may do there.

Senator Smith. Well, it should. I think every country should. Mr. Hart. Thank you, Mr. Chairman.

Senator Green. You may be excused. The next witness, Austin T. Flett. We will be glad to hear from you, Mr. Flett.

# STATEMENT OF AUSTIN T. FLETT, WRITER AND PUBLISHER, OF CHICAGO, ILL.

Mr. Flett: Mr. Chairman and members of the committee, my name is Austin T. Flett; my address is 135 South La Salle Street, Chicago, Ill. I appear in my own behalf and not as a representative of anyone else.

I am nationally known for publishing and lecturing on "Meeting Mutual Competition," a treatise on the sale of cooperative insurance and "The United States as a Satellite Nation," a treatise on the Worldwide Cooperative Movement.

The reason I have requested an opportunity to appear before the Committee on Foreign Relations is to expose one of the greatest conspiracies in American history to destroy the social, economic, and political structure and sovereignty of the United States.

I would like permission to state my case without interruption and

then answer questions.

Senator Green. How much time will you wish for that statement? Mr. Flett. About 10 minutes—7½ minutes. Senator Green. Go ahead.

#### AMERICAN COOPERATIVE MOVEMENT

Mr. Flett. Documentation that I have compiled during the last 16 years from more than 10,000 pages of original copies of domestic and foreign cooperative publications I own dated 1902 to date will substantiate the accusations I am about to make and prove my case that what is known as a highly organized tax favored American cooperative movement is 1 of 38 tentacles of, and subservient to, an international conspiracy whose stated goal is to communize national and international trade and commerce, our people and our Government and establish under the "Rainbow" flag a one-world, collectivized, nonprofit cooperative commonwealth of which the United States of America is to become a participating state completely dominated, politically and otherwise, by cooperators, Socialists, or Communists of the Soviet Union, Great Britain, France, Italy and later, Red China.

Senator Green. Will you perhaps explain now in advance what that has to do with the subject matter of this hearing?

Mr. Flerr. Foreign aid program, the use of United States tax-payers' money.

Senator Green. You relate your testimony to that?

Mr. Flerr. It is that.

This program includes liquidation of the executive, legislative, and judicial branches of our Government, emigration and trade barriers, our educational, religious, labor, and profit systems, national defense and the sovereignty of the United States.

These objectives are being attained via the sinister, unrecognized teachings of cooperation otherwise known in the movement or cause

as collectivism, socialism, or communism.

The attached list of quotations of cooperative leaders regarding the definition of "cooperation" speaks for itself, especially quotation No. 9 and No. 10 which states and I quote:

The words of Lenin, that the social order which we have to support is the cooperative order, are realized in the Soviet Union.

## And-

The end cooperation is world federation, a united state of the cooperatives of all nations.

Cooperative teachers state via the teachings of internationalism they must destroy national patriotism before they can attain their worldwide goal. According to cooperative publications they infiltrate into social, educational, labor, religious, women's, and youth organizations as a social and cultural movement but, as early as 1910 cooperative leaders stated the life and death struggle to destroy capitalism in various nations will be fought on the economic platform of the world.

## OBJECTIVES OF "COOPERATORS"

Cooperative publications state cooperators in the movement, as a

part of the class struggle should, or will-

1. Accomplish their goal by strikes, sabotage, or any other means of legal or illegal resistance to capitalistic industry or governments, using force as necessary, particularly as relates to any armament or rearmament programs of the war criminals of the United States that may be directed for use against the Soviet Union or Red China;

2. Collaborate with leaders in domestic labor organizations, the International Labor Office, the World Federation of Trade Unions, UNESCO, and any other organizations having similar

objectives;

3. Be joiners in social, civic, service, trade, and political organizations to promote the cause and attain positions of influence to suppress publicity or legislation unfavorable to the movement.

#### BACKGROUND OF COOPERATIVE MOVEMENT

The seeds of this movement were sown in Russia by British cooperators about 1900 where they have grown to present-day proportions of being a major dominating tentacle of this movement.

About 1927 Russian leaders appealed to international headquarters of the worldwide cooperative movement in London, England, to use their influence to reestablish diplomatic and trade relationships with the United States.

Mr. Litvinoff headed the delegation that went to London to plead their case and later came to Washington to complete the ar-

rangements.

Attempts to organize and develop the American tentacle of this movement were not considered successful prior to United States recognition of Russia in 1933. These arrangements were immediately followed by the establishment of the widely publicized Harold Ware Communist cell in the Department of Agriculture.

From that date until the present time this movement has flourished in the United States and its tentacles have reached into every phase

of the lives of our people including our government.

Many cooperators identified with the organization and development of the American movement have also been active collaborators in the organization and development of the Communist Party of the United States of America and at one time cooperative stores in the United States over a period of several years sold their first brand products under the label of the hammer and the sickle.

In many foreign countries, prior to World War II, cooperators who collaborated with Socialists and Communists in attempts to seize control of their governments were placed in prison, executed or fled to other countries, including the United States, and as a result of these rebellions a study of this conspiracy indicates World War II was fought and the United Nations was established to complete the destruction of capitalism and capitalistic governments in various nations throughout the world.

Since World War II many of these refugees returned to their homelands where they became top political leaders. Persons opposed to the teachings of cooperation are listed by cooperators as fascists, mortal enemies of this movement, capitalistic savages, imperialists,

warmongers, war criminals, and industrial anarchists.

Cooperative leaders state they will work under veiled form and not declare their radicalism during the transition period of destroying capitalism. They also state politicians in the various countries will not openly accept support of the movement.

#### USE OF TAX-FAVORED PROFITS

In the United States various types of commercial cooperative so-called nonprofit organizations directly or indirectly identified with this cause, have been selling their products or services to an unsuspecting capitalistic-minded member and nonmember public for all the tax-favored profits they can obtain and with these profits they expand the movements, eliminate competitors, and control legislation to establish a cooperative state with their own set of law within the Government of the United States, so as to destroy capitalism and our form of government and promote, with United States taxpayers' money in cur country and foreign nations, the teachings of cooperation with the result that encirclement of the United States by nations promoting cooperation and controlling many vital raw materials essential to our national security is now being consummated.

This is the rainbow flag, the emblem of the one world cooperative commonwealth. This flag is to supersede the flags of all nations including the Stars and Stripes, the emblem of the sovereignty of the

United States of America.

I would like to place in the record this copy of one of my latest speeches, which explains in detail how the United States is to become a satellite nation via the teachings of internationalism and cooperation.

Thank you gentlemen for this opportunity to serve my country. I will be glad to answer any questions and show you documentation I have with me to prove my case that the people of the United States are being led into one-world communism via the tax-favored American tentacle of the international cooperative movement.

Senator Green. Thank you. Your statement will appear in the

record, but the speech that you ask to have included will not.

Are there any questions?

Senator Smith. I just want to ask the witness this simple question: You are opposed to any form of foreign aid?

Mr. Flerr. No, I am not, through the International Labor-

#### COMMUNIST UNDERGROUND MOVEMENT

Senator Smith. It seems to me that what you stated relates to what we are hearing all the time that the Russians are trying to do, through their underground subversive Communist movement. We have to agree that such a movement is going on underground and we have to

Mr. Flett. And this is the main root of the movement in the United States.

Senator Smith. What is?

Mr. Flett. What I am talking about. It predates the Harold

Senator Green. You may be excused. (Mr. Flett's statement is as follows:)

IS THE UNITED STATES TO BECOME A SATELLITE NATION VIA THE TEACHINGS OF COOPERATION?

Cooperation as being taught to adults and the youth of our country is a sinister, unrecognized conspiracy to destroy the social, economic, and political structure and sovereignty of the United States of America. Cooperation is defined as follows in official publications of the international cooperative movement, whose objectives are to communize trade and commerce, the people and governments of all nations.

1. "Cooperation must be talked up as a comprehensive movement, as a means of social regeneration, not as a mere moneysaving device.'

2. "Cooperation means the elimination of every unnecessary middleman."

3. "Cooperation is the most radical movement ever known in history."

4. "Cooperation is socialism in action."

5. "Socialism is cooperation on a grand scale." 6. "Communism is socialism in working clothes."

7. "Consumer cooperation is an anticapitalist, revolutionary movement aiming toward a radical social reconstruction based on an all-inclusive collectivism."

8. "It is a principle—and a dominant aim—of the International Cooperative Alliance, a world organization, to transform the capitalist profit-seeking system into a cooperative social order, in other words, into a Socialist order of society. This is the aim of every Communist worker. But the means which we propose differ from those which the cooperators of other political creeds advocate as the correct ones. We believe that if this aim, the elimination of the capitalist profit-seeking economy, which is the aim of the International Cooperative Alliance is to be achieved, we must be quite clear that it can only be realized if the whole working-class movement does away with those who, as the factors of power of the bourgeoise in every part of the world, continually threaten the workers. This we cannot achieve by traveling along the smooth road of evolutionary development, but we must wring it from the possessing classes by fighting against them."

9. "Cooperation is the very antithesis of imperialism. It is, in short, anar-

chism rationalized."

10. "The words of Lenin, that the social order which we have to support is the cooperative order, are realized in the Soviet Union."

11. "The end of cooperation is world federation, a united state of the cooperatives of all nations.

Motto of movement: "All for each and each for all."

Emblem: Rainbow flag (to supersede flags of all nations.)

Goal: A one-world, nonprofit, collectivized, cooperative commonwealth.

[Subsequent to the testimony of Mr. Flett, a letter relating to his. tetstimony was received and has been inserted in the appendix at the request of a member of the committee. See p. 1078.]

# STATEMENT OF M. A. STERNER, FOREST HILLS, N. Y.

Senator Green. The next witness is Mr. M. A. Sterner.

Mr. Sterner. My name is M. A. Sterner, of Forest Hills, N. Y. I have written two studies for Congress which apply to foreign relations which are favorable to foreign aid for a new and different reason.

This requests an amendment to encourage foreign inventors and per-

mission to place the report into the record.

For example, the United States has received free \$7 trillion from 50 inventors.

Senator Green. Will you explain what purpose this report is in-

tended to serve?

Mr. Sterner. This report really is prepared for the Judiciary of the Senate, but it applies very intensely to the foreign-aid program because I can prove that America has been receiving from foreign inventors its greatest industrial gains, its greatest industries, its standard of living, liberty, and religion.

Senator GREEN. That is rather remote from the purposes of these

hearings.

Mr. Sterner. I do not think it is remote because the airplane

industry was conceived by Cayley of England, specifically.

Senator Green. This is a question of aid to foreign industries. Do

you have anything to say on that subject?

Mr. Sterner. Yes. The inventors of foreign countries are not coming to the United States with their ideas, and the reason that they do not come to the United States—certainly this does not benefit me or my cause, I am just bringing this out to the Senate because I think it is important, that some of the greatest inventors of Europe are not coming with their ideas to the United States.

Senator Green. There are a number of other witnesses waiting to be heard on the subject matter under discussion, that is, proposed legislation on foreign aid, and I think you had better give way and

present this to some other committee at some other time.

Mr. Sterner. All right, fine, I will be glad to do that.

Senator Green. Sorry.

Mr. Sterner. That is all right. I thought that this was highly important because you want ideas and the United States is not getting ideas.

Senator Green. No, we want ideas not on every subject but on a

specific subject. Otherwise we won't get through these hearings.

Mr. STERNER. All progress comes through inventors.

Thank you.

Senator Green. Mr. George J. Dietz.

# STATEMENT OF GEORGE J. DIETZ, DIRECTOR OF INTERNATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION

Mr. DIETZ. Thank you for the opportunity to say a few words. Senator Green. Is it upon this subject?

Mr. Dietz. It is, sir.

Senator Green. I am afraid we will have to limit the witnesses to speaking on the subject before us because there is a long list of witnesses still unheard and we would like to get the aid of any criticism favorable or unfavorable on the proposed legislation, but we do not

have time to go into all other matters no matter how interesting they

Mr. Dietz. I assure you, sir, that our organization, the American Farm Bureau Federation, is extremely interested in this matter.

Senator Green. Are you coming here in an official capacity?

Mr. DIETZ. I am the director of International Affairs of the American Farm Bureau, and I would like to say something on the mutual security program for 1957, if I may.

Senator Green. If you will, please.

Mr. Dietz. I believe you will agree that our organization has spoken on this matter before and that we are very much interested in the mutual security program, being the largest agricultural organization in the United States.

Senator Green. It will be good to get back to the subject.

Mr. Dietz. I hope so.

Our statement is long, however, and if I may, I would like to just give you the highlights.

Senator Green. Suppose you read what you regard as the main points and we will include all of it in the record.

Mr. DIETZ. I would like to include it all for the record if I may, and I will just skip through our statement in an effort to speed things up for you, sir, in line with your previous request.

Senator GREEN. Thank you.

Mr. Dietz. We are aware that a substantial increase over last year has been requested; \$4.7 billion is a very large, somewhat excessive figure. We are a bit disturbed at this increase and we are also disturbed over the fact that a lot of the balances have been unexpended. It is very difficult for our membership and it is also very difficult for the average individual in the United States to understand what exactly is in this program. We believe that there is an interlocking effect and it is difficult for anybody to figure out just what is in the bill and what will be required.

## CATEGORIES OF ASSISTANCE

It would certainly help if the program could be broken down into three general headings, technical assistance, military aid, and economic aid as such.

It could very well be that it is hard or impossible to expand or diminish any one of these programs without disrupting the others. at least that is what Department of Defense officials say when we

speak with informed individuals on this matter.

We understand that almost \$800 million of economic aid is scheduled for the Far East under defense support alone. It is very difficult for us to reconcile this, since it seems to us that this is a duplication of the activities of the United States and other international agencies working in this field.

# REDEFINING MEANING OF TECHNICAL COOPERATION

It seems to me that it would be a great deal simpler for the average American with the three headings. We think also that under technical aid or technical cooperation, there needs to be a redefining of the meaning of technical cooperation.

We understand that technical assistance largely consists of advice,

teaching, training, and the exchange of information.

This should not include, and I do not believe that it was meant to include, provisions of supplies and equipment. We think that technical assistance or technical cooperation, should be spelled out as such and should not mean economic aid.

## EXPANDING BARTER ARRANGEMENTS

The American Farm Bureau also urges that United States barter arrangements should be expanded. ICA has taken not as firm a role in barter negotiations this year and previous to this year as we would like

We therefore believe that ICA should give the United States Department of Agriculture more of an opportunity to negotiate the barter agreements on offshore procurements.

ICA procured in fiscal year 1955 around \$210 million worth of eco-

nomic assistance and technical aid offshore.

Yet only \$22 million was barter for agricultural surpluses, and we believe this is a field, sir, that can very well be expanded and investigated by this committee. We would like to recommend such consideration be given here.

## CENTRALIZING TECHNICAL ASSISTANCE IN U. N. FEARED

We are also disturbed about the recent moves to centralize technical assistance in the United Nations. We believe that the FAO, as such, has done a commendable job. I believe that the United States can realize greater value from fully utilizing the FAO facilities.

In this connection we sent to Ambassador Lodge a wire not too long

ago expressing our fears and also the fact-

Senator Green. Is that quoted by you in your statement?

Mr. Dietz. Yes, sir; I trust it will be entered in the record with our statement. We have received a reply from him and I would like to just mention here, that Ambassador Lodge welcomed the opportunity to discuss this matter with us. He believes that he can explain his position and that all of our fears are not justified.

# MAKING AID PROGRAM UNDERSTANDABLE TO AVERAGE AMERICAN

Lastly, I believe, as I said, one of the most important things of all is to make the mutual security program appropriation requests under-

standable to the average citizen.

I think that this is very important, sir. We should keep that in view. It might very well be that the mutual security program will fall of its own weight if we do not make it simple for people to understand and especially for our representatives here in Washington to

I have made an effort to outline very hurriedly what is in our statement. I hope that you will carefully look this over. That is all I

Senator Green. Thank you. Are there any questions!

Senator Smith. I have no questions. I think you have made some very interesting suggestions here and I think the members will be very interested in reading your statement.

Senator Green. Thank you very much.

Mr. Dietz. Thank you, sir. I hope this was apropos. (The statement of the American Farm Bureau Federation is as follows:)

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION TO THE SENATE FOREIGN RELATIONS COMMITTEE REGARDING THE MUTUAL SECURITY PROGRAM

## By John C. Lynn, Legislative Director

The American Farm Bureau Federation appreciates this opportunity to discuss: with the Committee on Foreign Relations several aspects of the mutual security

Farm Bureau is a farm-family organization, financed by membership dues on a voluntary basis. It is an independent, nongovernmental organization of farmers, by farmers, and for farmers. It was organized to provide a means whereby farmers can work together and speak with a united voice on the problems which affect them, either as farmers or citizens. At the close of our last fiscal year, November 30, 1955, we had 1,623,222 paid-up member-families in 48 States and Puerto Rico.

The President in his message on March 19, 1956, recommended a mutual security program for fiscal year 1957, and asked for \$4.7 billion, which is a substantial increase over last year. Whether or not the great increase for fiscal year 1957 is essential must be based on information not available to us, and, therefore, we are not able to judge the exact dollars needed for each of the items in the budget. We are impressed with the size of the program being proposed for fiscal year 1957 and the size of the unexpended balances.

#### MILITARY ASSISTANCE

We are especially impressed by the size of the request for military assistance for fiscal year 1957. Of the \$3 billion requested, \$2.2 billion is for equipment, supplies, and spare parts. This compares with the authorization last year of \$1.5 billion, of which \$776 million was for equipment, supplies, and spare parts.

We have some doubts as to the advisability of continuing a program of supplying our allies abroad to such a great extent with military equipment produced in the United States. The United States should avoid the burden of having to finance spare parts for this equipment for many years to come. If we continue this program over a long period of time, we will permanently burden our allies with the necessity of spending their limited dollars for spare parts. from the United States.

Foreign military aid should assist our allies to build up their own defense resources rather than to supply military goods produced in the United States. The dispersion of the vast expenditures for defense among cooperating nations will not only provide purchasing power in the hands of other nations but will also avoid undue concentration of defense production in the United States, which tends to unbalance our own economy and encourages allies to let us carry an

increasing burden for the common defense. We feel that the Department of Defense should take definite and immediate

steps to achieve this objective.

It is significant that \$1,022 million was appropriated for military assistance for fiscal year 1956. Over 29 percent will have been neither obligated nor reserved by the end of the fiscal year.

The "Reservation account" shows that the Department of Defense will have over \$3 billion unobligated in this account at the end of fiscal year 1956. is more than double the fiscal year 1956 authorization. The Department of Defense will have about \$4.8 billion unexpended at the end of fliscal year 1956, yet they request \$3 billion additional authorization. This means, if the Congress appropriates the amount being requested, that the Department of Defense will have about \$7.8 billion in the beginning of fiscal year 57. Their own estimates show that by the end of fiscal year 1957 their unexpended balance will rise to about \$5.3 billion. We think these amounts are excessive.

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#### DEFENSE SUPPORT

Fiscal year 1956 authorization: \$1,022.3 million.

Fiscal year 1957 request: \$1,130.7 million.

This category is economic aid; it includes \$41.9 million for agriculture and natural resources as well as requests for education, health, and sanitation, and public administration.

We understand that there are over 1,000 "technicians" employed or under contract and the request is to raise this to over 1,200. This type of activity

would be more appropriately listed under "Technical cooperation."

Almost \$800 million of economic aid is scheduled for the Far East under defense support alone. It is very difficult for us to reconcile this, since it seems to us that this is a duplication of United States and other international agencies working in this field.

#### DEVELOPMENT ASSISTANCE

Fiscal year 1956 authorization: \$182 million.

Fiscal year 1957 request: \$170 million.

In fiscal year 1955, \$2.5 million for agricultural activity was authorized and \$12 million for industry. In fiscal year 1956, over \$69 million was spent for agricultural development and only \$3.4 million for industry. It is encouraging to see this trend reversed in fiscal year 1957 with a request of \$9.9 million for

agriculture and \$18.8 million for industry.

In our foreign economic aid program up to date, major emphasis has been given to increasing agricultural production. This may have been a sound approach in some instances, however, we believe that greater emphasis should now be given to the development of resources and industries that will more rapidly raise the income and standards of living of the people involved. In many of the so-called underdeveloped areas, particularly in the Far East, it is estimated that about 85 percent of the population are in agriculture. Certainly, these people need more food: however, one of the problems facing many countries is the underemployment in agriculture. In some cases it is estimated that the gross per capita income for the people in agriculture is less than \$36 annually, while in nonagricultural pursuits it is slightly less than \$100 annually. Certainly, if we are to promote the economic development of many of these countries, it will be necessary to develop industries that will help to relieve the population pressure on the land and develop fuller employment, leading to a higher standard of living.

#### TECHNICAL COOPERATION

Authorization, 1956: \$172 million.

Request, 1957: \$157.5 million.

We agree with the Administration's statement:

"These programs emphasize and consist largely of advice, teaching, training and the exchange of information; and they do not include the provision of supplies and equipment, beyond that which is required for effective teaching and demonstration purposes."

However, in the request for 1957, it is indicated that only \$95.6 million of the \$157.5 million will be used for technicians working in foreign countries, or

to train foreign technicians in this country.

It appears that approximately 40 percent of the funds requested for technical cooperation does not fit the definition as stated by the International Cooperation Administration. Therefore, we must conclude that about 40 percent of the money being asked for here is for programs other than technical assistance.

There is ample opportunity under the Agricultural Trade Development Act of 1954 (Public Law 480) for the United States to have available local currencies for which many of these projects can be financed, and we believe, to a much greater advantage, than is done in many instances through expenditures of

dollars.

We would like again to point out by way of comparison that the total amount currently being spent annually in the United States for all vocational education training (Federal, State and local) is \$164,761,217.75. The total annual Federal, State and local funds being spent for the Agricultural Extension Service in the 48 States, Alaska, Hawaii, and Puerto Rico amount to \$109,912,053.42. Thus the amount being asked for technical assistance is almost 60 percent of the total of

these 2 United States educational programs, embracing all 48 States and Territories and employing many thousands of highly skilled United States technicians.

#### PRIVATE ORGANIZATIONS' PLACE IN TCA PROGRAM

The American Farm Bureau Federation has been active in the technical assistance program in recent years. During the last 5 years we have sponsored some 500 young farmers for on-the-farm training in the United States for periods ranging from 6 months to a year, whereby they have received technical training in American agriculture. We also sponsor many individual and specialized adult

groups to study agriculture and cooperative marketing.

The Farm Bureau in cooperation with the International Cooperation Administration conducts the young farmer trainee program for young farmers in countries of the free world. In 1955 we placed on farms in some 25 States 161 of these young farmers who lived with farm families and gained experience, not only in American agricultural techniques, but in the American way of life. In 1956 we placed 140 young farmers from 26 countries on farms. These young men live in the homes of the farm operators and are encouraged to participate in all of the community activities. We plan a follow-up program for this training after these young men return to their respective countries in order to be of maximum assistance to them in putting into practice some of the things they have learned while in America.

This program is being operated at a very nominal cost to the International Cooperation Administration and we believe offers a great opportunity for American farm families to make a lasting contribution in technical assistance

and good will among nations.

The following countries are participating this year: Austria, Brazil, British Guiana, Chile, Colombia, Costa Rica, Denmark, El Salvador, Germany, Greece, Iceland, India, Israel, Japan, Jordan, Kenya, Netherlands, Norway, Panama, Southern Rhodesia, Spain, Taiwan, Turkey, United Kingdom, Uruguay, and Yugoslavia.

#### SECTION 402

It is a matter of concern to us that contrary to section 402 of the Mutual Security Act, which requires that \$300 million of the authorized funds be used for sales of surplus agricultural products, that only \$270 million worth of surplus products have been so utilized in fiscal year 1956. We are also concerned that the request is made to reduce this to \$250 million in fiscal year 1957. This, despite the fact of our mounting surpluses in American agriculture.

#### OPPORTUNITIES FOR TRADING IN CRITICAL MATERIALS

There are great opportunities for trading with our friends for critical materials. Many of these countries are scheduled to receive large grants of aid during the coming year under the legislation now being considered by the Congress. Much of this dollar expenditure could be saved and at the same time build up their economy and ours by trading surplus agricultural commodities for these materials.

To protect our economy as a whole, we believe it is wise to encourage through the foreign economic aid program the importation of supplemental supplies of critical materials within careful procedures to protect domestic producers. It would be unwise to pursue a long-time national policy which in 25, 50, or 100 years would exhaust or impair our supplies of industrial raw materials. We

should assure our supply through imports.

In the current fiscal year, as of February 29, 1956, \$130.7 million worth of Commodity Credit Corporation stocks have been used in barter transactions. However, over \$122 million of this was used for strategic material and only \$7.8 million worth was utilized by ICA for their procurements. For fiscal 1956 under the mutual security program, approximately \$3.3 billion was authorized and some \$2.7 billion was appropriated. Yet, we are advised that of all these materials, implements and commodities being procured, only \$7.8 million can be acquired through barter. Naturally, it is easier to spend dollars; it requires some effort to use barter, but it helps to solve some of our problems on a sound basis.

It seems apparent to us that the congressional action contained in title III of Public Law 480 has been somewhat disregarded. Our information indicates that the ICA feels that barter should not be used in the procurement of materials for which dollars are available, since some seem to think that a primary function

is to "teach other countries how to buy with our money." With \$9 billion worth of agricultural surpluses, it would seem to us important that ICA utilize this bartering authority to a much greater extent.

We therefore recommend that section 413 of the Mutual Security Act of 1954

be amended as follows:

"Notwithstanding this section 413 or any other provisions of law the procurement of supplies, materials, and equipment financed with funds authorized to be made available pursuant to this act shall be accomplished by the Director of the International Cooperation Administration in cooperation with the Secretary of Agriculture through barter or exchange of surplus agricultural commodities unless the Director determines in each case that such procurement cannot be accomplished in such a manner."

We feel that this would be a reasonable implementation of the mandate given by Congress in section 303 of the Agricultural Trade Development Act (Public

Law 480).

A conservative estimate of the materials procured by ICA for which surplus agricultural products might have been used would approximate \$500 million. Certainly, it should be substantially more than the \$7.8 million so far utilized by ICA in fiscal 1956.

## MULTILATERAL TECHNICAL COOPERATION

Quoted below is our resolution dealing with United Nations and specialized agencies:

"The United Nations is a force for world peace. Though it has failed to solve some problems, it has succeeded in solving others. Where there is discussion,

there is hope.

"We favor continued financial support of the United Nations and its specialized agencies. However, we insist that these funds be allocated to the specialized agencies and that the funds and program be administered on a decentralized basis. We oppose centralizing the use and administration of funds for specialized agencies in the United Nations."

The United Nations and its specialized agencies have been carrying on the technical assistance program for several years. I would like to comment briefly with regard to the technical assistance program as it relates to the Food and Agriculture Organization of the United Nations. The AFBF knows of the work FAO is doing in the technical assistance field; and dollar for dollar expended, FAO is perhaps getting a better job done than is the United States bilateral technical assistance program.

The Food and Agriculture Organization has, as you know, a regular budget of about \$6 million, of which the United States contributes about \$1.6 million. The authorization for FAO is fixed by Congress at \$2 million. We believe considera-

tion should be given to increasing this authorization.

In recent years the FAO has been carrying on what is commonly referred to as the expanded technical assistance program. The United States contribution to this expanded program is about \$15.5 million annually. This represents about

56 percent of the total program.

There has been a recent move to centralize the allocation and use of these and other funds in the United Nations. We believe the FAO is more familiar with the needs for technical assistance in agriculture and that this program should be directed and the funds utilized by FAO, with sufficient coordination between agencies to avoid duplication of effort.

Our concern was expressed only this week in a telegram sent to Ambassador Lodge, our U. N. representative, with regard to this matter. We would like to

insert this in the record at this point.

"The trend toward centralization of authority in United Nations disturbs us a great deal. We are particularly concerned with regard to the continued effort to centralize the activities of the specialized agencies, particularly FAO, in United Nations. Your statement on April 29 seems to us to support going in the direction of further centralized control of authority through United Nations. We have studied the SUNFED proposal and have grave misgivings about the effectiveness and advisability of United States following this route. We support the United Nations but we are opposed to any further centralization of authority in United Nations at the expense of the specialized agencies and are opposed to channeling any portion of the United States Foreign Assistance money through the U. N. at this time. We would welcome an opportunity to discuss this matter with you at your convenience."

We recommend that the Congress consider a joint resolution (draft of which is attached to this statement) which we believe will do a great deal toward clear-

ing up this situation.

We believe that United States aid for mutual security should be divided into three separate and distinct programs-military aid, economic aid, and technical assistance—each with its own appropriation. This will make it possible to expand or diminish any one of these programs without disrupting the others.

For example, it has been especially difficult for us to distinguish between economic aid and technical assistance. We believe that these programs should be specifically separated out as far as the budget is concerned so that each program could be analyzed from a budgetary point of view. When we have made suggestions that one or more of these programs could be curtailed, the administrative agencies of government usually attempt to show how each of the programs is interrelated in such a manner that makes it very difficult to reduce one without affecting another.

#### JOINT RESOLUTION

Stating the policy of the Congress on the participation of the United States in multilateral technical cooperation programs

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the participation of the United States in multilateral technical cooperation programs shall be on the same basis as the participation of the United States in the regularly established and budgeted activities of the international organizations which operate such programs and

of which the United States is a member.

Sec. 2. In adopting this joint resolution, it is the sense of the Congress that the Government of the United States should use its best efforts to bring about, as soon as practicable, and in any case no later than the end of calendar year 1957, the transfer of operations of multilateral technical cooperation programs from the basis of the United Nations expanded program of technical assistance to the same basis as the regularly established programs of the international organizations which have participated in the expanded program, so that contributions for multilateral technical cooperation from each member government will be made to each international organization carrying on such activity in the same manner as contributions for regularly budgeted activities of the organizations, and so that the programs of multilateral technical cooperation administered by these organizations will be reviewed and determined by the representatives of their member governments in the same manner as their regularly established programs. It is further the sense of the Congress that the participation of the United States in any multilateral programs of a nonemergency nature for economic development or for other purposes, which operate now or which may be proposed in the future, shall be on the same basis as its participation in the regularly established activities of the international organizations that may be proposed to have a part in carrying on such programs.

SEC. 3. In adopting this joint resolution the Congress does so with the understanding that, in the transfer of operations of multilateral technical cooperation programs to the same basis as the regular programs of the international organizations operating these programs, the Government of the United States should secure the adoption by the governing organ of each such international organization of a precise statement of the purposes, objectives, and methods of these programs appropriate to each such international organization to insure that the programs will operate in a coordinated and integrated manner and that the programs will be susceptible of achieving meaningful progress toward defined objectives. Congress also understands that the basic objectives of the programs will be stated as being to assist member governments to establish the services necessary to enable their people to improve their industrial and agricultural livelihood and well-

being and their health, education, condition of labor, and general welfare.

Senator Green. Mr. Reuben Johnson.

# STATEMENT OF REUBEN JOHNSON, ASSISTANT COORDINATOR OF LEGISLATIVE SERVICE, NATIONAL FARMERS UNION

Mr. Johnson. Mr. Chairman, members of the committee, for the record I am Reuben Johnson, assistant coordinator of legislative service, National Farmers Union. I am appearing before the committee to present the statement of James G. Patton, president of National Farmers Union.

# VIEWS OF NATIONAL FARMERS UNION

The membership of National Farmers Union through delegates to our recent national convention have expressed a strong and continuing interest in activities and programs which bear upon the Nation's effort to increase the economic strength, productive capacity, and living standards of the free world.

We look upon such activities and programs as essential to the attainment of peace and better living for our own citizens as well as citizens of the other free nations.

Moreover, we look upon such programs not as foolhardy benevolence, but as a commonsense approach to the attainment of peace and of our own security and survival.

# INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

National Farmers Union is a member of the International Federation of Agricultural Producers. This is an organization made up of national farm organizations of the various countries of the free world.

Mr. Patton was honored in being elected vice president of this international farm organization and a member of its executive committee.

Representatives of member organizations from other countries represented in IFAP have convinced us that the farmer-memberships they represent have similar interests to farmers in the United States.

#### FARMERS BEHIND THE IRON CURTAIN

Grounded in the farm areas of the world, there is a deep-seated desire for peace and the strengthening of the free and democratic world. From all reports, farmers behind the Iron Curtain share the interests of farmers of the free and democratic nations in increasing the sphere of human freedom and betterment.

Last year Harpers magazine carried an article entitled "Why Communism May Fail." The essence of the article is that the Soviet system is most likely to break up because it refuses to recognize the truth about how former owners of family farms in Russia react to having their farms collectivized and members of farm families subjected to the will of their Communist bosses.

To quote the author:

Perhaps the most dangerous enemy of communism is the stoic, passive peasant in Eastern Germany, Poland, the Soviet Union itself, China, and Northern Vietnam \* \* \* The passive figure of the peasant trapped in totalitarianism is joined as a potential mortal enemy of communism by the farmers of the free world \* \* \* notably in the underdeveloped areas and perhaps most notably, at the moment, by the awakening of the Indian peasant.

In acknowledging the request of National Farmers Union to appear before the committee, the clerk asked that we be brief. We shall make our oral statement brief, filing a second statement and the section of our program on foreign policy adopted in March 1956 at our national convention.

#### SUPPORT FOR OBJECTIVES OF MUTUAL SECURITY PROGRAM

At the outset, Mr. Chairman, I want to state our support for what we understand to be the objectives of the mutual security program. National Farmers Union has supported the defense, economic development, and technical assistance phases of the program each year since its inception.

While we have done so, we are becoming more and more concerned that somehow we have lost sight of the objectives of the program or how to operate it to attain the proper objectives in the present inter-

national situation.

Rather than dwell specifically on the provisions of H. R. 10082, we shall comment on some of the general factors and considerations we feel are important when related to our mutual security program and its success in winning friends among people in nations not committed to communism.

#### PEOPLES OF LESSER DEVELOPED AREAS

We are living in an uneasy world, a world in which one-half of the people are trying to climb out of hopeless poverty and dependence on the economic ladder to security and freedom. These people of Asia, the Middle East, Africa, and even Latin America, most of them bypassed by the industrial revolution of the 19th century—some even bypassed by the dynamic political ideas that culminated in the American and French Revolutions—are more than half of the people of the noncommunistic world.

They may well decide the fate of all free and democratic societies. Recognizing this fact, the leaders of Soviet Russia are launching a campaign to ensure the people of the lesser developed areas, bring-

ing them into the Communist camp.

While the Communists are reported to be doing well on the side of the military, their emphasis in these lesser developed areas is on trade and capital investment. They have promised a great deal, and what they promise is exactly what these developing nations need.

# SOVIET "NEW LOOK"

While we are faced with a formidable new kind of challenge—what some are calling the Soviet "New Look"—we are still with the old look; we still cling to our narrow, rigid, unimaginative policies.

United States foreign policy in the absence of any new ideas or direction bumbles along its meandering course, from crisis to crisis, from brink to brink. We have never had such unsure direction, such

inept diplomacy.

Delegates to our convention have indicated support of "adequate appropriations for development of essential national defense." In so doing, recognition has been given to the need for a reliable modern defense force for the free world prepared to act in concert to bring any aggression to trial before world opinion.

However, the New Look in the Soviet Union under which emphasis is placed on manipulation of the internal weaknesses of nations in the interest of the Soviets means that United States' concentration on

military aid alone will not be effective in furthering the cause of human freedom and betterment.

## MULTILATERAL AID

The President has stated that we need to provide more economic aid to underdeveloped countries and that each dollar of economic aid is worth \$5 spent on the military. But expressing the position of the United States on SUNFED (Special United Nations Fund for Economic Development) a delegate of the United States on November 8, 1955, said:

The demands of defense still call for vast amounts of the world resources, which obviously means a heavy burden on taxation, and a consequent curtailment or postponement of many desirable economic and social programs \* \* \* A United Nations fund supported only by the relatively small resources which apparently could be made available to it by member countries under existing circumstances would, we feel, make little impact upon the worldwide problem of economic underdevelopment.

Ambassador Henry Cabot Lodge, Jr., is quoted in the New York Times, April 29, 1956, as saying that the present world situation requires the United States to channel a larger share of its foreign aid

through the United Nations.

He said, and I quote—
Multilateral aid offers a way to prevent the so-called auction which some are trying to promote between the United States and the U. S. S. R. as to which will spend the most in an underdeveloped country.

Lodge stated further that a sound multilateral program would provide—

no cover for engaging in political penetration, which is what the Communists do and which we are unjustly suspected of wanting to do.

Since Ambassador Lodge aptly expressed our position of long standing on economic aid programs, our national president wired him as follows:

United States answer to adverse trends in foreign policy should be to take lead in establishing a "World Economic Development Agency" of the type proposed as the United Nations special fund for economic development.

National Farmers Union is in accord with recent developments which indicate a change in policy concerning the establishment of an agency to administer

economic aid programs within the framework of the United Nations.

It is imperative that economic aid programs not be used to interfere with self-determinating ambitions of any nation, nor to perpetuate totalitarianism or colonialism. Multilateral economic and technical aid programs operated by the United Nations will promote best material well-being, employment, production and trade in ways that will enrich human life, eliminate economic weaknesses, and promote faster rate of economic growth and development in the underdeveloped nations.

Apparently Ambassador Lodge was expressing his personal views on multilateral economic and technical aid since his position has since been repudiated by the President and administration leaders.

Senator Green. May I ask you what evidence you have that these

personal views have been repudiated?

Mr. Johnson. Yes, sir, I think I can answer your question, Senator Green.

The President in a press conference a while ago, a short time after Ambassador Lodge was quoted in the New York Times, stated that he favored continuation of the bilateral economic aid program that

we have had and I believe that Secretary Dulles some time later con-

curred with the views of the President.

Senator Green. It seems to me that if you put in Mr. Lodge's statements and then say they have been repudiated by the President and administration leaders you ought to get quotations from them, too.

Mr. JOHNSON. Would you like me to include them in the record at

this point, Senator?

 $\mathbf{I}$  will be glad to do so.

Senator Green. They will be included in the statement at the proper place.

Mr. JOHNSON. I certainly will do that. I am glad you called that to my attention because I believe that should be documented also.

Senator Green. Quotations.

Mr. Johnson. All right; we will be glad to see this is included in the record and we will furnish this information to Mr. O'Day, the clerk of the committee.

(The information referred to is as follows:)

On May 4, 1956, in his regular press conference, President Eisenhower was: asked by a reporter if the administration had any present plans to divert more foreign aid through the United Nations, and what he thought of such an idea.

According to the New York Times of May 5, 1956, the President replied: "Well, of course, theoretically, a—doing everything through an international body of good will there would put all aid where it was needed, should do the most good in the world, would remove any chance of politics entering the subject, I mean, international politics, so you could build up a very great case for the theory \* \* \* and in actual practice we are quite certain that as of today, and you know the character and the difficulties of the United Nations, as well as I do, you couldn't keep out politics.

"Therefore, if we are going—our efforts, as we see it today, must be largely done on a bilateral or, let us say, on some kind of an association basis, and not

the major effort through the United Nations, as of now."

Ironically, the President only 8 days earlier had, along with Ambassador Lodge, favored use of the United Nations in extending to needy nations economic development assistance. In a press conference on April 26, 1956, as reported by the New York Times, he said:

"We would be very happy to see the United Nations take a bigger and firmer hold and get more nations that are capable of contributing, more nations intothe thing, and if for no other reason than to make certain there was no political

purpose behind it.

"In the meantime, we are constantly studying into our own methods to seehow we can promote mutuality of interests and not merely be in the position

of attempting to dictate or to bribe somebody.

"Now, I would see nothing at all against-I mean, far from seeing anything against it, I would be in favor of seeing the United Nations take a more active interest in this business."

[Italics supplied.]

[See also pp. 38 and 42 of hearings where Secretary Dulles discussed this matter.

# ADMINISTRATION'S FOREIGN AID REQUESTS

Mr. Johnson. H. R. 10082 provides funds for economic development and technical assistance disassociated with military expenditures as follows:

	Million
Development assistance (defense support)	\$170
Technical cooperation	157
President's emergency fund	100
Special fund for Middle East and Africa	100
Foreign atomic reactor projects	6

533

About a billion dollars more will be expended for economic development (defense support) under H. R. 10082. However, such funds are expended in connection with military programs where the primary reason for giving aid is to boost the economies of those countries with men under arms.

The administration has requested about \$4.9 billion—may I digress to say I have seen this 4.9 billion in the press quite a few times and

I have seen another figure, too.

I assume this 4.9 billion is somewhere close to being accurate.

So I said, under H. R. 10082 about a billion dollars more will be

expended for foreign economic and military aid programs.

Of this amount only about 30 percent will go for economic aid and technical assistance—this includes funds going into defense support, development assistance, technical cooperation, President's special

fund, and other related programs.

In spite of the President's remarks that he favors more economic aid, only about 10 percent of \$4.9 billion asked for by the administration will be funds which are exclusively outside military expenditures (these are the programs for which total expenditures amount to \$533 million as indicated in the tabulation above.)

## ORIENTING AID PROGRAMS AWAY FROM MILITARY EMPHASIS

Mr. Chairman, National Farmers Union sees the need for a strong defense among the free and democratic nations. But we are convinced that we are in grave error in assuming that effective military pledges can be bought in underdeveloped nations whose people as yet

have not attained something they really want to defend.

Aren't we putting the cart before the horse in our attempt to make military allies out of people who have not yet won the battle against poverty, hunger, disease, and illiteracy? Wouldn't we be on firmer ground if we began to orientate our aid programs away from military emphasis, and toward healthy relationships between free and selfrespecting peoples just the same as would exist between a giver and a recipient in a family neighborhood in any one of the free and democratic nations.

The influence of the United Nations in extending multilateral programs of economic development is being lessened as the "have" nations give attention to enlarging bilateral programs of economic

assistance.

Senator SMITH. Mr. Chairman, might I just interrupt there to ask a question.

Does the witness intend to read this entire document?

Mr. JOHNSON. No, sir, I think I can do this in about 5 or 7 more minutes, Senator Smith, if I may be permitted to do so.

Sénator Smith. Couldn't you file the statement with the committee? Mr. Johnson. You will note that our second statement is to be filed. I only have I think about 4 or 5 more pages to read.

Senator Green. His own statement ends at the top of page 9 and

the rest are addenda.

Mr. Johnson. Yes, sir; that is right. I would appreciate the opportunity to complete this statement through page 9.

Thank you, sir.

#### ADMINISTERING ECONOMIC AID WITHIN U. N. FRAMEWORK

For example, the financing of the Aswan Dam for Egypt involves as much money as the total goal of the Special United Nations Fund for Economic Development (SUNFED) which we have seen stopped cold due to the failure of the United States and the United Kingdom to

participate.

Secretary Dulles has suggested the possibility of placing the emphasis among the North Atlantic Treaty Organization nations on social, economic, and political development. While this, under proper conditions, could be a constructive step, we believe the establishment of an agency to administer economic aid programs within the U. N.

framework is an infinitely better approach.

With the United Nations offering economic aid, smaller nations will more readily accept it because of the fact that every vestige of domination by a larger nation has been removed. To a new nation struggling to stand on its own feet this has been demonstrated to be of great im-The administration has completely overlooked this importance. portant fact.

The tragic and unnecessary setbacks in our relations with our free and democratic neighbors of the world are particularly disturbing

to the farmers of the United States.

The peoples of Asia and Africa are struggling for a democratic society, freedom from colonialism, living wages, fair and rising labor standards, progressive forms of taxation, the elimination of discrimination based on race, color, nationality, religious beliefs, caste or sex and enough to eat and wear.

These kinds of aspirations, farmers of the United States can under-What they cannot understand is why we can't have a foreign policy which will reflect our genuine interest in human freedom and

betterment in the underdeveloped areas of the world.

#### CONSTRUCTIVE USE OF FOOD STOCKPILE

As far as farmers are concerned, there is no better illustration of our weakness and shortsightedness than our inability to make constructive use of our stockpile of food in the area of need. Certainly. our adversaries, if blessed with such an asset, would recognize such stocks as an asset to be used creatively and boldly, for their own aggressive expansionist purposes.

Surely, we are not so devoid of imagination that we cannot devise the ways to use our stocks on a loan or grant basis with interest focused primarily on raising living standards in the poverty stricken areas.

Our first thought in such a program need not be of our interest only, but in serving the interests of people who are trying to bridge the gap of 100 or more years in economic development, we will serve our own.

## WEAKNESS OF OUR FOREIGN POLICY

Farmers of the nation, Mr. Chairman, are convinced that in the foreign policy what we do, as important as this is, is not always as important as how we do it. The "how" of our foreign policy is our great weakness at this time.

The United States, along with the other "have" nations of the West, will have to do more than talk about human freedom and liberty. We are going to have to actively demonstrate through humanitarian action what we mean.

There are about 2,600 million members of the human race on the Half of them still go to bed hungry every night. Two-thirds

of them suffer from poor diets.

The man who digs in the rice paddy of Ceylon, or scratches with a stick in the earth of India, is becoming more and more important to us. What he thinks, feels and believes is of growing concern to every person in this nation.

To reverse the current adverse trends in foreign economic policy,

National Farmers Union proposes the following specific actions:

#### PROPOSALS OF NATIONAL FARMERS UNION

1. Participation of the United States in establishment of a free world economic development agency of the type proposed as the United Nations Special Fund for Economic Development (SUN-FED).

What is needed is a vast expansion of the type of work done by the Export-Import Bank, World Bank, and the World Monetary Fund, with greater emphasis on economic growth and less upon short-term

repayment ability.

2. United States appropriations of economic and technical assistance to other democratic nations and for cultural exchange, such as the Fulbright program, should be greatly expanded with as much as feasible of such aid extended through the instrumentalities of the United Nations and the specialized agencies, such as Food and Agri-

cultural Organization. ... Those parts of these programs that cannot under current conditions be best administered through the United Nations should be carried out as fully as possible through voluntary private foreign relief organizations such as CARE and the other private and religious organizations registered with Foreign Operations Administration for that

3. Expand the authorizations of the Reciprocal Trade Agreements Act and encourage the executive branch to use them more fully.

4. Enactment of customs simplification law.

5. Renewal and improvement of International Wheat and Sugar Agreements and negotiation of other such agreements for all commodities that enter importantly into international trade.

6. Negotiation and establishment of an International Food and

Raw Materials Reserve or World Food Bank.

In addition to the above, emphasis should be given immediately to the following:

7. United States must denounce colonialism in clear terms.

8. While maintaining adequate defense until a foolproof disarmament agreement can be worked out, United States should end its continued talk about armed might, its military alliances, and its atomic striking power.

9. United States economic aid should be given separate and apart from military aid and without strings of any kind attached. We must not give the impression that we are trying to buy the good will

of the Asians or others to whom we give aid.

10. In the absence of power other than manpower in a large part of the underdeveloped areas of the world, the United States should

move rapidly to give aid in the peaceful use of atomic energy.

11. United States best efforts should be applied to making constructive use of our abundant agricultural commodities. Use of food to alleviate inflation and for making possible release of a nation's funds for capital investments is urged.

12. In accordance with the suggestion of the chairman of the committee, a study should be made of the long-time operation of our aid programs. It looks very much as if we will continue aid programs for many years to come. It is necessary for the gap in economic development to be closed if we are to move in the direction of a permanent peace.

We do not want to see, however, any study used as an excuse for

obstructing our aid program.

We are convinced that if existing sliding scale foreign economic policy were reversed to move in the directions indicated this would in itself further the prospects of peace as well as increase the demand for United States farm products.

Farmers everywhere, including American farmers, also deeply feel

the Biblical injunction "Love Thy Neighbor."

American farmers want farmers all over the world and people generally to enjoy and be able to earn a better life and a better living.

Moreover, American farmers know that they themselves can earn better livings if people in other nations can earn the purchasing power required to buy the commodities we produce. And it is good sense for us to buy from other nations the things they can produce to a better advantage than we can. Farmers in America are benefited by economic growth in other democratic nations as well as in our own.

For these reasons National Farmers Union strongly supports all United States efforts to promote, encourage, facilitate and assist economic development and growth in the democratic nations of the

world.

Senator Green. Thank you very much.

Are there any questions?

Senator Smith. I have no questions.

Senator Green. No questions. Mr. Johnson. Thank you very much, Mr. Chairman.

(The statements referred to above are as follows:)

STATEMENT OF JAMES G. PATTON, PRESIDENT, NATIONAL FARMERS UNION

#### COMMONSENSE FOREIGN POLICY

The existing foreign policy of our Nation is neither as intelligent nor as effective as it ought to be and could be if less official solicitude were spent to preserve vast monopolistic international cartels and more concern were exercised for the coordinated economic development of free and democratic nations in the interests of all their citizens.

## Farmers have direct interest in foreign economic policy

National Farmers Union is a member of the International Federation of Agricultural Producers, an organization made up of the national farm organizations of many countries of the free world. As president of National Farmers Union of the United States, I am vice president and a member of the executive committee of that organization. IFAP, for all of its 10 years, has taken an active interest in improved farmlife and increased consumer purchasing power throughout the free world in an expanding free economy.

For many years, also, as president of National Farmers Union, I was a member of the public advisory boards of Economic Cooperation Administration, Mutual Security Administration, and Foreign Operations Administration. National Farmers Union members have served as members of United States delegations to all of the early meetings leading up to the establishment of Food and Agriculture Organization and of the United Nations and many of their subsequent meetings.

As a result of this intimate participation in these programs, we in National Farmers Union have gained and maintained an active and informed interest in all phases of United States foreign economic policy, trade policies as well as programs of technical assistance and economic development. State and National officials and staff members of Farmers Union have played active roles in the development and conduct of our Nation's foreign trade policies and programs of technical assistance and foreign economic development.

Our participation in these affiairs has been grounded upon the direct and manifest interest in them on the part of Farmers Union members and farmers

generally, both as citizens and as farmers.

#### Farmers' interest in foreign affairs

Farmers' basic interest in foreign affairs, economic and political, is grounded upon their deep-seated desire for peace. Farmers are convinced that a permanent peace will be easier of attainment in a world where living standards are rising, where economic growth rather than stagnation gives a basis for hope to replace the feeling of hopelessness generated by generations of chronic poverty.

Farmers everywhere, including American farmers, also deeply feel the Biblical injunction to "Love thy Neighbor." American farmers want farmers all over the world and people generally to enjoy and be able to earn a better life and

better living.

Moreover, American farmers know that they themselves can earn better livings if people in other nations can earn the purchasing power required to buy the commodities we produce. And it is good sense for us to buy from other nations the things they can produce to a better advantage than we can. Farmers in America are benefited by economic growth in other democratic nations as well as in our own.

For those reasons, National Farmers Union has strongly supported all United States efforts to promote, encourage, facilitate, and assist economic development and growth in the democratic nations of the world. In this connection, we have supported the mutual security program as indispensable to a realistic and enlightened national policy. This position, simply stated, does not imply that we feel that our obligation as citizens is ended in making funds available for the various programs financed under the mutual security act. It is not altogether what we put into economic development and growth in the democratic nations, it is how it is used. Our criticism of foreign policy, as presently administered, is not to be construed as reflecting opposition to our worthy aid programs, but, on the other hand, how such programs are being conducted.

#### Purpose of statement

It is our purpose in this statement to present broadly our views in the whole foreign policy area. Our foregoing statement deals specifically with the bill before the committee, H. R. 10082, which authorizes the continuation of the mutual security program.

## Democratic World Economic Union

We are convinced that these aims could best be obtained by the early establishment of a Democratic World Economic Union, composed of nations that would subscribe to the kinds of democratic rights and privileges set forth in the United States Constitution and Bill of Rights. Such an economic union of democratic nations, we feel, could develop and operate the economic development and trade promotion programs that would contribute most to a rapid integration and growth of free world economies.

Until such time as a Democratic World Economic Union can be established and put into operation, we are convinced that the policies of the United States, operating through foreign economic agencies and the United Nations and the specialized agencies, such as Food and Agriculture Organization, should be adapted to coincide as nearly as possible with the kind of economic program for the free world as would be adopted by its representative governing body if such

an economic union were in existence.

We feel that the largest possible proportion of our foreign economic programs should be implemented through agencies of the United Nations. Further, we are convinced that those parts of these programs that cannot under current conditions be best administered through the U. N. should be carried out as fully as possible through the voluntary private foreign relief organizations, such as CARE, registered for that purpose with Foreign Operations Administration. This has two advantages, we feel. First, it helps overcome the appearance, as well as the actuality, of economic imperialism. Second, we are convinced that we can be more fully assured that the people in other nations who need our economic help most will be more likely to receive it if such programs are administered through private relief organizations than by government-to-government procedures.

## Agricultural land reform

This challenge has been the basis of the deep interest and strong efforts of National Farmers Union to insist that a central part of United States foreign economic programs should be to promote agricultural land reform in all its phases—secure land tenure, adequate farm protection income programs, development of farmers' purchasing, marketing and service cooperatives, adequate family farm credit facilities, organization and growth of free farm organizations, and the like.

The desire of the agricultural producers of the world to become substantial family farmers with secure tenure and decent incomes can be a strong moving

force for expansion of democracy and the basis for a secure peace.

We feel that agricultural land reform has never been given the important place it deserves in our foreign policy. Further, we feel that emphasis upon it has been reduced markedly in the last 3 years. We look on this lessening of emphasis upon agricultural land reform as an adverse and dangerous development in United States foreign economic policy.

We urge your committee to make a special study of this matter to determine the extent to which adequate emphasis is being given to the promising avenues of approach to this problem of giving farmers a strong stake in their land

and their national survival.

If time permitted, we would cite in detail the examples where successful United States assisted agricultural land reforms have had most desirable results, to mention a few: South Korea, Japan, Iran, the Philippines. We think that subsequent events have proved the tragic blunder that the United States made in failing to follow a similar policy in Egypt.

We were deeply concerned that world reaction to the firing of the United States agricultural attaché to Japan, who was so vitally associated with the MacArthur land reform in Japan would be interpreted as a turning away by our Government from agricultural land reform. Subsequent occurences have not fully removed the danger.

#### Which way?

In exercise of its economic world leadership, the United States can take either of two routes: the road to scarcity or the road to abundance.

Faced with the problems of tariffs, low productivity, dollar shortages, embargoes, and other problems restricting sale of United States farm products in other countries, the United States can take the road of abundance or the road of scarcity.

There are two kinds of scarcity roads:

1. Economic isolation or go it alone, and

2. Exclusive reliance upon cartel-dominated free trade.

## The go-it-alone road to scarcity and chaos

The United States can go it alone. American markets for American goods. Hold out competing imports; give up foreign markets for United States production.

The United States farmer would have to shift 50 million acres now producing wheat, cotton, tobacco, rice, corn, soybeans, apples, and other commodities into production of something else that could be sold in the United States.

A large segment of United States industrial production would have to shut down, lay off workers, reduce consumer demand in the United States for farm commodities for lack of raw materials and lack of foreign markets.

United States farmers' cost of production and consumers' cost of living would rise owing to our not being able to buy imported goods.

The entire free world, including United States, production and living standards "Stomach communism" in many areas of the world would be would be reduced.

promoted. A Fortress America would become inevitable.

If we want this, if we want to go it alone, it can be done with preclusive protective embargoes and tariffs against imports; expansion of "buy American" policies; refusal to support United States and FAO; and stopping United States economic aid to nations of the free world.

The cartel-dominated road to scarcity and chaos

The other road to scarcity is to rely exclusively upon cartel-dominated, socalled free international trade.

We can do this by repealing our tariffs, abolishing our embargoes against competing imports, such as sugar, wool, feed grains, barley and dairy products; stopping United States economic aid to other countries; abolishing the United States Export-Import Bank, the International Wheat Agreement, pulling out of World Bank and International Monetary Fund, refuse to implement reciprocal trade agreement, repeal section 22, and the escape clause.

International trade would then be dominated by international private cartels-huge international trade monopolies. Only the farmers and other raw material producers of the world would fully enjoy the fruits of competition.

Foreign countries could not be expected to greatly reduce their government restrictions on trade and currency exchanges. United States producers would be set free in an administered-price market dominated by foreign government regulation and international private cartels. Selling prices received by United States producers would be uncertain and artificially low. Buying prices paid by United States consumers would be uncertain and artificially high.

The world price of farm commodities and other raw materials such as tin. rubber, and iron ore, would fluctuate greatly from month to month and year to year. This would discourage productive investments and retard free world

economic expansion.

Neither of these scarcity roads is the right road.

Road to abundance and veace

The road to abundance is through negotiated international regulation of expanded international exchange of materials—greater international economic cooperation and coordination, preferably through international agreements and agencies comprised of many nations.

These include negotiation and establishment of (1) a world economic development agency; (2) additional international commodity agreements such as the International Wheat Agreement for each and every raw material that enters importantly into international trade: (3) renewal of reciprocal trade agreement; (4) ratification of an international trade agency truly consistent with these principles; and (5) the proposed international food and raw materials reserve.

If these things are done, this would-

(a) Encourage investments:

(b) Stabilize markets;

(c) Promote increased production in all countries;

(d) Reduce, and ultimately eliminate, famines, chronic undernutrition, low living standards; and

(e) Make possible the use of abundant food supplies to aid in establishment in the lesser developed area of the world a system of public school for every child.

Serious gaps now exist in present United States laws and international agree-

There is no provision for international handling of interrelated financial and

commodity market problems. Thus, the United States with 7 percent of world's people, 30 percent of world's

resources, but 74 percent of world's manufacturing output is using up resources very rapidly and does not have a stabilized source of supply.

While raw materials-producing nations are still subject to wild ups and downs in world raw materials markets and monetary exchanges, it is our considered and mature opinion that these gaps must be closed. We are convinced they can be closed to the great benefit both of the United States and all the other democratic free nations of the world. We are also convinced that this is the only type of foreign economy that is consistent with an expanding full employment domestic economy, with the attainment of the needs and aspirations of United States family farmers, and most conducive to national security.

Sliding scale farm program a handicap

The sliding scale farm price and income policy now being operated by the Federal Government is a detriment and a handicap to an intelligent and effective foreign economic policy. Exclusive reliance for farm income protection on market price propping not only serves as an artificial suction to draw in unneeded imports and thus invites and requires the imposition of tariffs and import quotas. The exclusive use of market price propping of sliding-scale farm price supports may also build up in Government ownership a stock of commodities beyond the need for an adequate national safety reserve. When this happens and such stocks are put into a special set-aside as has been done, for special foreign disposition of the dumping variety instead of being insulated as should have been done, these stocks become a burden on and threat to trade and economic development all over the free world.

We are convinced that our domestic farm income-protection program can and should be made fully consistent with the internationally planned abundance type of foreign economic policy.

International Food and Raw Materials Reserve

Probably the most persistent, most disturbing and most perplexing of modern economic problems is the human suffering and relative stagnation enforced upon producers of raw materials by the extreme ups and downs in the prices of raw materials and consequently in their realized and expected incomes. The problem is serious in all the more highly developed nations. It is even more seriously present and damaging in the lesser developed nations.

Wide swings in raw material prices present prospective investors in raw material development, whether persons, firms or states, with a very large range of variation in expectations as to returns that can be earned by opening up and developing an augmented raw material supply. This condition is one of great risks where at any moment not only might part of the investment be rendered valueless but earnable returns may even fail to cover day-to-day operating costs and the entire enterprise will have to be shut down with attendant loss of income and human suffering.

Faced with such great uncertainty in expectations both states and individuals are hesitant to open up or expand enterprises that are currently profitable but which may at any time dip drastically below the break-even line through no fault of the enterprise management itself. The multiplication of this kind of situation throughout farming and all other raw materials industries puts a very severe damper upon the rate of economic development in these industries.

This slowing down of the rate of expansion in raw material industries not only reduces the supply of such materials to meet human needs and to fuel manufacturing and other secondary industries, it also holds down the purchasing power of persons and firms on the raw materials sector and thus cuts down on sales, scale of operation, and consequently of income and purchasing power of the industrial and service segments of the economy. Consequently, the entire economy idles along at a lower rate of production and expansion than should or needs to be the case. In the more highly industrialized nations the symptoms are seen in chronically depressed industries like farming and coal mining in the United States. Among the lesser industrialized nations, a drop in raw material prices can bring an entire nation dangerously close to bankruptcy and can directly cause a widespread drop in personal income and standards of living of the entire population.

It is only natural that the economic segments and nations involved in these debilitating circumstances would take evasion and protective action just as an intelligent bomber pilot takes evasive action from destructive antiaircraft fire.

Such protective or evasive action when taken unilaterally by different nations helps to solve the problems caused by fluctuating raw material prices only at the cost of reducing the magnitude of international exchange of commodities and thus results in the loss by each and all nations of the advantages of specialization. Everybody in all nations has less real income and a lower standard of living than they might otherwise be able to attain.

Through the administrative machinery of an international food and raw materials reserve, the stabilized prices of each different raw material that enters importantly into international trade would be negotiated and agreed upon. The reserve would thereafter stand ready at all times to buy any raw material commodity offered it at the agreed upon stabilized price and would stand ready to sell such commodities at the agreed upon stabilized price.

The industry of advanced nations is chewing up basic resources at a tremendous and rising rate. For example, the United States which has 7 percent of the world's population and 30 percent of the world's natural resources account for 70 percent of the world's manufactured goods. The United States is using up its resources base at a very rapid rate and very much faster than the rest of the world. To be secure in our rising living standards and to retain the resource base for an expanding economy, we must assure ourselves a stabilized source of supply of the raw materials for our manufacturing industry. The same situation is true in other industrial nations such as the United Kingdom, France, Germany, and Japan. The thought-provoking details for different commodities were thoroughly considered in the Paley report of several years ago.

Highly industrialized nations could depend entirely upon private industrial concerns to make long-term contracts with raw material producers in other lands. And this should be done. But it can only be successfully and securely accomplished under the protection and encouragement by governments and international

economic accords.

These latter conceivably could be done exclusively through bilateral arrangements between the United States and foreign nations; 1 nation at a time, 1 commodity at a time. However, no supplier, private enterprise or state, wants to become dependent exclusively on 1 buyer; nor does any importing nation or industrialist want to become dependent upon only 1 seller.

Through the international food and raw materials reserve, exporting nations can obtain assured long-term stabilized markets and importing nations can obtain an assured long-term ample supply at stabilized prices of imports on terms that will not injure domestic producers who must sell their commodities in competition

with imports.

The international food and raw materials reserve would operate in coordination with the International Monetary Fund and the World Bank. Many of the national restrictions we now have that hold down greater international exchange of commodities is the desire of nations to preserve their monetary position in different currencies particularly dollars and pounds sterling. The international food and raw materials reserve would completely eliminate this problem by operating in terms of all currencies on the basis of internationally agreed upon official exchange rates.

The international food and raw materials resolution has been before Congress for 3 years. The concepts involved in the resolution have their roots in the stillunsolved problems of extreme human need, starvation, economic stagnation, and poverty throughout the world in the midst of surpluses of raw materials that cannot be sold at prices that will return an adequate stable income to producers.

The genesis of the ideas are found in the efforts of National Farmers Union of the United States to work out a solution to the farmer's income problem. Recommendations presented nearly 10 years ago to the International Federation of Agricultural Producers by National Farmers Union representatives were fully considered and favorably acted upon by this international private farm organization, among whose members are all the national farm organizations of the United States.

The international food and raw materials resolution does not itself establish an international agency. The resolution merely calls upon the President to undertake negotiations with other nations to that end. Any agreements reached would, of course, be subject to review and ratification by the Senate of the United States and appropriation of any needed capital and other funds would

have to be fully considered by both Houses.

The international food and raw materials reserve will help solve many of our Nation's most difficult problems of both domestic and foreign policy. will make a major contribution toward permanent peace by facilitating a more rapid rate of economic expansion. Its operation will stabilize world raw material markets. It will put abundant production to work.

# INTERNATIONAL COOPERATION AND PLANNING

The proposal for the establishment of an international raw materials reserve to cover petroleum, iron ore, tin, rubber, and other raw materials, as well as food and fiber, is not new. An international food reserve resolution was introduced in 1953 by Senator Murray and 23 other Senators and by Congressman

A World Food Board idea was proposed immediately after World War II by Lord John Boyd Orr, first Director General of Food and Agriculture

Organization.

An International Commodity Clearance House was proposed by committee of experts of FAO and IFAP, but was never ratified by the governments. In 1954 the International Federation of Agricultural Producers meeting in

In 1954 the International Federation of Agricultural Producers meeting in Nairobi, Kenya, made the following policy declaration (the eighth in as many years):

"Intergovernmentally agreed rules be adopted by the countries concerned regarding principles to be followed in the disposal of surplus stocks in the world markets so that they interfere as little as possible with normal production and trade, and that effective intergovernmental machinery be established for consultative purposes.

"The matter of a world food reserve should be kept under active consideration and to that end, the Committee recommends that the Secretariat prepare a study indicating the nature of the machinery needed to implement the plan and the obstacles that have stood in the way of attainment of this objective and giving all possible suggestions as to how such obstacles might be overcome."

#### INTERNATIONAL COMMODITY AGREEMENTS

The international food and raw materials reserve should be buttressed and coupled with additional international commodity agreements similar to the International Wheat Agreement.

At its 1954 meeting, the International Federation of Agricultural Producers

said in its policy statement:

"IFAP reaffirms its faith in intergovernmental commodity agreements as a means of bringing about greater stability in the prices of major commodities moving in world commerce and will assist in creating a better public understanding of the underlying philosophy of such agreements as an important means of stabilizing trade."

The United States is already embarked upon a small and timid program to make use of abundant United States farm production to further the aims of the United States foreign policy on a unilateral and bilateral basis through:

- United States foreign policy on a unilateral and bilateral basis through:
  (a) Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) which provides for sales for soft currencies up to \$1.5 billion and donations up to \$300 million; these authorizations should, of course, be expanded.
  - (b) Title I, Agricultural Act of 1954 (Public Law 690) provides for foreign sale and donation of up to \$2½ billion set-aside of CCC stocks.
  - (c) "Farm product sales" amendment to Mutual Security (Foreign Aid) Act provides for sales up to \$350 million in this fiscal year. We urge that these funds be maintained at this level as a minimum.
  - (d) Section 416 of the Agricultural Act of 1954, as amended in 1954, authorizes CCC to sell stocks at "competitive world prices and pay repackaging costs and transportation from present location to shipping port."

(e) Section 32, enacted in 1938, allows up to 30 percent of tariff revenues

to finance foreign sales of United States farm products.

This program has an excellent aim. The major trouble with it is that which has already been revealed by the extreme slowness with which the program was put into operation. In actual practice, even this unilateral United States program can be carried out only by international negotiation, seldom bilateral but usually requiring consideration for side-effect upon third and fourth parties. How much better if an international institution were available to operate this essentially good program.

## Need for economic growth of democratic nations

Half the world's people have just about enough food for minimum subsistence, barely enough to prevent starvation, but not enough for health by any decent standard. Only one-third of the world population has enough food of the right kind to be well nourished.

The average life expectancy in India is only 27 compared to United States figure of 68.

In India, 123 of each 1,000 babies born die in their first year. In the United States the figure is only 29 per 1,000. In Iraq and Egypt, only 600 of each 1,000 babies that are born live to be 5 years old.

To bring the average world textile consumption per person up to only one-half the United States average of 38 pounds per year, would require an increase in world production of cotton and other fibers of almost 90 percent. Population increase in the last 15 years has outrun increase in food and fiber production in the world as a whole and in many different countries of the world, particularly in southeast Asia, southeast Europe, northern Africa, Germany, and Austria.

To be safe, nutritionally, over a long period, requires about 1,900 calories a day with some protein from animal sources in warmer tropical climates; and 2,200 calories a day in cooler areas, such as the United States. In all the world, except a handful of countries in Western Europe, North and South America, Australia, and New Zealand, the people on the average live at or very near this breakover point. Since some people in every country live very well indeed, considerably more than half of the population live below safe nutritional levels most of their lives.

The real answer to the problem of unbalance between productive capacity and effective demand must be found on the side of demand. People have almost unlimited wants, which unfortunately do not always meet with a corresponding purchasing power, for better food, better housing, better clothing, better educational facilities, and for a vast array of various kinds of manufactured goods. There could be an ever-expanding circle of the distribution of these things as opportunity is increased.

The underdeveloped countries may be divided into two classes—those which have large natural resources but small populations and those which have large populations in comparison with their resources of raw materials. The former are largely in Africa, the Middle East, and Latin America. The latter are largely

in Asia.

In the countries of small populations and large resources the problem is mainly one of securing outside capital for development, although there is also the problem of raising the level of technical skills of the native population.

It is, however, the problem of economic growth of heavily populated underdeveloped countries with relatively limited natural resources that is most difficult of solution. It is in these countries where will be found the vast number of underclothed and undernourished people who could, through economic development, earn the means of payment to absorb enormous quantities of food and fiber.

These countries need technical assistance and capital if their standards of living and purchasing power are to be substantially raised. It is recognized that, in respect to both technical assistance and capital, agricultural development will receive important consideration, for agricultural development must go hand in hand with industrial development if the necessary expansion in consumer purchasing power is to be achieved.

So far as technical assistance is concerned, some progress has already been made through international and national agencies; but much more needs to be done. The problem of capital for development is much more difficult but equally

important in this class of country.

## United States food to eliminate world illiteracy

All of the so-called surplus United States food and fiber production would be but a drop in the bucket, if the democratic nations should agree to use food to finance and make possible the complete elimination of illiteracy by means of nationwide systems of free public schools, including vocational education, for every child.

The average per person real income in the United States is upwards of \$1,900 per year. This level is approached only by such countries as Switzerland, Canada, Australia, New Zealand, and Sweden. Real income per person in England is half that of the United States; French per person income two-thirds that of England; and Italian is only two-thirds of French.

United States	\$1,900
England	
France	625
Italy	450

In most of the rest of the world, income and standards of living are very low, averaging \$125 per person per year in South and Central America, \$75 per person in Africa and the Middle East, and \$40 per person per year in Asiatic countries.

The United States has 7 percent of the world's people, and 50 percent of the world's income. United States produces half of the world's radios, three-fourths of its telephones, four-fifths of its automobiles, half of the world's power. In all, United States produces each year 70 percent of the world's manufactured products.

Similar figures for the continents of the world are:

Continent	Percent of world's people	Percent of world's income
Africa South America Asia Europe outside Russia U. S. S. R.	8. 8 4. 5 53. 9 16. 6 8. 1	2.6 7.8 2.0 16.5 1.4

#### WHY UNITED STATES MUST ACT

If history teaches anything it is that situations of this kind cannot long endure. History has a way of removing barriers and evening off such extremes of economic opportunity. Usually this is brought about when the barbarians storm the walls of ancient Rome and burn and sack the city. This pulls down everybody to the lowest level.

It behooves the United States and other industralized nations to see that the evening-up comes about by expanding economic opportunities in other nations; not through forced reduction of standards in nations with higher incomes.

About a third of the world's people live in the United States, Western Europe, and other democratic nations that are relatively well developed and have fairly high incomes and living standards; another third live in countries behind the so-called Iron Curtain dominated by Soviet Russia and its police state system of control.

The remaining third of the world's people—about 900 million of them—live in nations that have not yet made up their minds about democracy. These are the people of South and Central America, southeast Asia, Africa, and the Middle East. Here "stomach communism" holds out a glittering lure with its false promises of enough to eat.

These nations have not attained the economic development and higher living standards easily possible with modern technology and organization. Extreme

poverty is the rule.

The United States must intensify its efforts to assist in the development of a coordinated program of aid to relieve hunger and suffering, and to promote expansion and strengthening of the national economies of the democratic nations in ways that will not destroy the principle of self-determination of peoples. The United States should help these nations to develop economic conditions that will:

(a) Create an international community of economic effort for common purposes, avoiding the extremes of either forcing unwanted policies on others as a condition of our help, or of undertaking action ourselves in the absence of appropriate efforts in the countries that participate;

(b) Promote material well-being and allow employment, production, trade and investment in ways that will enrich human life and eliminate economic weaknesses that threaten political stability and inevitable totalitarian im-

perialism;

(c) Afford all democratic nations increasing opportunities for economic growth and improving standards of living in ways which will operate so that economic gains are distributed equitably within countries; and

(d) Attract peoples and governments toward the democratic system of political freedom.

To attain these objectives we support continued international economic negotiation; increased United States contributions to the specialized agencies such as the Food and Agriculture Organization, and expansion of United States foreign economic assistance and of the program by which our advanced technological knowledge is made available to other nations to assist them to increase the efficiency of production and marketing and to improve the agricultural land tenure systems, eliminate colonialism, and reform their economic and social structures.

The operations of an international food and raw materials reserve would generate the purchasing power and stabilize international markets in a manner that would greatly facilitate more rapid economic development in the free world. An international food and raw materials reserve would greatly strengthen

the operations of our point 4 laws.

The Mutual Security Authorization and Appropriation Acts provide a small amount of United States funds (about \$1.5 billion) for loans and grants to other nations to facilitate economic development and expansion and a limited amount of funds (about \$200 million) to send United States experts to foreign countries to provide technical assistance or know-how.

The United States appropriations to FAO and other specialized U. N. agencies and limited United States contribution to expanded technical assistance program

of the U. N. should, of course, be renewed.

With an operating food and raw materials reserve, these funds would go a lot further because first they would be augmented by the loans available from sale of buffer stocks. The stabilized international markets would greatly reduce the risks of price fluctuations and thus raise expectations sufficiently to really speed up investment in resource development.

The appropriation for this work has been greatly reduced since 1952. Civilian programs have been submerged and intermingled with large military aid

programs.

Emphasis has been centered on engineering and production techniques and largely shifted away from institutional reform, except that in 1954 the program to help develop labor unions in other countries was reactivated in the summer

of 1954 after having been allowed to lapse for a year.

Attention to organization and development of farmers cooperatives and farm credit agencies has been continued but at a reduced scope. Work on land tenure improvement and setting up free private farm organizations has largely been curtailed or eliminated.

Our Nation must recapture leadership in this vital field. We need to enlist cooperation of other economically strong nations, preferably under auspices of

international organizations.

The proposed International Food and Raw Materials Reserves is a necessary supplement to the technical assistance programs of the United Nations, the World Bank, and other specialized agencies.

#### OTHER MEASURES

Renewal of the International Wheat Agreement and negotiation of an improved International Sugar Agreement and additional International Commodity Agreements for all commodities that enter importantly into international trade. Such agreements should include net-importing as well as net-exporting nations and the pricing arrangements should be based upon an international parity or general price index.

Expansion and renewal of Agricultural Trade Development and Assistance Act, to increase scope of program and expand authorization to include establishment of systems of universal free education in nations that do not have them.

Make greater use of the authorities provided in the Reciprocal Trade Agree-

ments Act

Enact a customs simplification law, and enact legislation to establish a program of trade-adjustment aids to United States industries, workers, communities, and farmers injured by reductions in tariffs and import restrictions. This can be accomplished with respect to farmers by legislation to provide 100 percent of parity income protection primarily by means of production payments. Such action would entail expansion of this type program to include milk and its products and other farm commodities provided in United States and sold in competition with imports as well as wool and sugar for which partially adequate payment programs are in operation.

#### EXHIBIT A

FOREIGN POLICY STATEMENT FROM NATIONAL FARMERS UNION PROGRAM FOR 1956-57

## AIMS AND PRINCIPLES

World affairs

We are convinced that the foregoing principles have universal application, that these are aims which reflect the aspirations of people everywhere.

Farmers Union will continue to strive for the earliest possible attainment of a democratic world brotherhood of nations, operated on principles consistent with the Constitution and the Bill of Rights, living at peace with one another in a United Nations that derives its just governmental powers directly from the

people of the world and provides the basis and opportunity for constantly increased production and improved living standards.

## United States foreign policy

The trend of world events has thrust the responsibility of world leadership on the United States. We reaffirm our support of United States efforts to assist in expansion and strengthening of the productive capacity and living standards of democratic nations. We emphasize the great importance and decisive role that abundant United States food production can play in the implementation of these policies. Until such time as a world brotherhood is fully established, a free democratic nation has the responsibility to protect itself and weaker nations against aggression through the United Nations.

## Expanding economy of abundance

We are convinced continuously expanding national and world economies of even greater abundance are absolutely essential to the improvement, extension, and preservation of representative democracy and to the ultimate attainment of permanent world peace. Democracy must, and ultimately will, extend enriched individual dignity, expanded economic opportunity, and increasing material well-being to all people. Governments, private groups, families, and individuals should continually promote the ever-greater attainment and ever-wiser use of a growing abundance. We need to improve family living conditions progressively throughout the world.

## A responsible foreign policy

The United States must live up to its responsibility as the world's most fortunate independent democracy by shaping a foreign policy that will dignify and promote the attainment of human rights and aspirations, and that will show the world that a free and democratic society can expand. We must cooperate with other nations who aspire to do the same.

1. Our responsibility for waging peace.—We must not base our foreign policy on nuclear might and "massive retaliation." Rather, the United States should demonstrate its willingness to lead the way to permanent peace with a positive program aimed at abolishing the reasons for war, including—but not limited to—efforts to ease and ultimately eliminate starvation, human exploitation, feudalism, dictatorship, colonialism, bad tenure systems, discrimination and all other injustices and threats to permanent peace consistent with nondictatorial and nonoppressive governments.

National security.—We shall support adequate appropriations for development of essential national defense. We support a truly selective service as a means of obtaining adequate numbers for the Armed Forces when voluntary enlistments are insufficient. We are unalterably opposed to universal military training and service by whatever manner or means it may be imposed and urge repeal of existing universal military training legislation.

3. Universal disarmament.—While assisting and encouraging development of free world defensive strength, the United States should accept responsibility for leadership in trying to work out foolproof means to universal disarmament through the United Nations. This must include definite assurance of being able to become forewarned of breaches of disarmament agreements.

4. Atomic power for all to share.—We urge exchange of nonmilitary atomic power materials, equipment and information among nations for the purpose of improving standards of living, developing human and natural resources, and

encouraging more rapid scientific and technological progress.

5. International organization.—We urge expansion and improvement of the status and functions of the United Nations and its specialized agencies such as the Food and Agriculture Organization. We must improve the International Court of Justice-within the framework of the U. N.-complete with police powers to prevent aggression and bring aggressors to trial. We further recommend the establishment of an economic union of democratic nations consistent with the United States Constitution and its Bill of Rights to speed up economic development, improve productivity of labor, land, and water resources, and to eliminate international legal and institutional obstacles.

6. Economic development of foreign countries.—We urge enactment of longterm legislation directing the use of the tremendous strength of United States food, technology, and capital toward aiding the wholesome economic development of less fortunate nations of the world. This must be done through full United States participation in programs of aid implemented to the fullest possible extent through the United Nations, and its specialized agencies, and through

private nonprofit foreign relief groups.

3 7 pm ?

Any such programs of assistance developed by our own Nation must be kept entirely separate from the necessary military devices of foreign policy. Such programs of aid must not be used in such a way as to interfere with the selfdetermination ambitions of any nation, nor to perpetuate totalitarianism or The ultimate aim of any such program must be to promote the material well-being, employment, production, trade, and investment in ways that will enrich human life, eliminate economic weaknesses, and promote an increased rate of economic development.

7. Foreign trade policy for expansion .- To operate consistently with international commodity agreements and the International Food and Raw Material Reserve, we support a continued and expanded use of the Reciprocal Trade Agreements Act, enactment of further customs simplification, ratification of United States membership in the Organization for Trade Cooperation and in the General Agreement on Tariffs and Trade.

We arge enactment of farm programs and other trade adjustment aid programs to protect our consumers, producers, farmers or any other group from the dangers and disadvantages of sole reliance upon the so-called international free market. The costs involved in the conduct of our foreign economic policy should be shared by all the people.

Senator Green. The next witness is Mr. Wallace J. Campbell, representing the Cooperative League of the United States.

# STATEMENT OF WALLACE J. CAMPBELL, DIRECTOR, WASHINGTON OFFICE, THE COOPERATIVE LEAGUE OF THE UNITED STATES

Mr. Campbell. Mr. Chairman, in order to save time I would like to read about the first two pages of my statement and then summarize the rest orally.

Senator Green. I think that would be a very good idea.

Mr. Campbell. If the statement may be included in the record in full.

My name is Wallace J. Campbell. I am director of the Washington

office of the Cooperative League of the United States.

The cooperative league has a very great concern for the policy and program of economic foreign aid, for we know that its direction and its effectiveness may shape the destiny of our country and the world in the months and years to come.

## COMPOSITION OF COOPERATIVE LEAGUE

The cooperative league is a national federation of consumer, supply, and service cooperatives. Its affiliated member organizations include in their membership approximately 13 million different families who own cooperative businesses of various kinds through which they obtain farm supplies, insurance, consumer goods, electric power, savings and credit, health services, housing, and other needs.

Those 13 million families represent a very large group of American taxpayers who are willing to bear their just share of the costs of such a program if it contributes to better world understanding, a higher

standard of living, and peace.

## ECONOMIC AND TECHNICAL AID

The economic and technical aid program is one of the principal routes through which we can eventually achieve world peace. It is this long-range objective of the program which has the unqualified support of our membership. The resultant lifting of living standards does much toward easing the tensions which exist in a world where twothirds of the population goes to bed hungry every night.

## AN EFFECTIVE FOREIGN AID BILL

The cooperative league believes that an effective foreign aid bill should:

Be adequate to meet today's need and responsibility;

2. Realize that technical assistance stimulates economic development and calls for capital for such development;

3. Be flexible to meet changing conditions, including authorization

for long-term commitments;

4. Direct an increasing proportion of technical and economic aid through the United Nations;

5. Move forward cooperatively in the economic-aid field through a

Special United Nations Fund for Economic Development.

6. Make more adequate use of the voluntary agencies on a people-

to-people basis.

7. Contain a forward look at economic development including the uses of agricultural surpluses, construction of atomic energy plants in high-cost power areas, and a study which would analyze the program and needs ahead.

Now may I summarize briefly the rest of the statement—Ambassador Lodge's statement at the U. N. has been referred to several times this

morning.

#### GRADUALLY INCREASING USE OF SPECIALIZED AGENCIES

We feel that he was outlining the proper direction through which we should go, namely, in the further expansion of our foreign aid through the United Nations specialized agencies as rapidly as that becomes feasible.

It is not possible to give up our own bilateral program and we

should not give it up.

We should, however, increase gradually our use of the FAO, the World Health Organization, the other specialized agencies of the U. N.

David Owens said at a conference at which 75 of our national organizations participated a few weeks ago, that the U. N. could triple its technical-assistance program in the next 5 years if requested to do so.

#### SUNFED

It also would be possible if the United States participated in the Special United Nations Fund for Economic Development, well known as SUNFED, to increase very substantially the economic part of our work through the United Nations.

We feel that SUNFED is very greatly misunderstood. Actually it does in the economic development field what the special technical assistance fund of the U. N. does in expanded technical assistance.

This would mean if we participated in SUNFED, if United States policy was to support it, that we would actually have the help of the other countries of the world in a cooperative program of international economic development.

It would save money for the United States and it would also give us a greater leadership in the foreign field if we participated in the SUNFED program. We give that our wholehearted support.

We would like to point out that technical assistance through the U. N. now is about one-tenth of the technical assistance we do through the United States bilateral program and that program should be increased gradually.

# USE OF VOLUNTARY FOREIGN-AID AGENCIES

In the field of use of voluntary foreign agencies, we feel that the contracts now made with several of these voluntary agencies should be

Much greater use should be made of the trade unions, the cooperatives, the agricultural organizations and educational institutions to carry on work abroad through technical assistance contracts.

Organizations like CARE which have already done a job in relief and in self-help should be used much more widely than they are used

Unfortunately CARE is looked upon just as a relief organization. Actually its work in the self-help field has been very extensive, and this organization, which is owned by the trade unions, the farm organizations, the cooperatives, religious and relief organizations could do a great deal more in that field.

So could the other voluntary agencies.

## REIMBURSEMENT FOR OCEAN FREIGHT CHARGES

A matter of very great concern is the repayment of ocean freight for shipment of United States agricultural surpluses overseas.

The voluntary agencies distributed overseas something in the neighborhood of 1 billion pounds of agricultural surplus commodities last

They were repaid by the ICA for a substantial amount of the costs

of ocean freight on these goods.

Senator Green. Have you any idea what proportion of the total that was?

Mr. Campbell. Of the total surplus?

Senator Green. Of the total amount that was so shipped.

Mr. CAMPBELL. I think that the ICA repaid ocean freight on the majority of the surplus goods that were shipped overseas last year.

Senator Green. But you do not have some figures showing the pro-

portion of the total?

Mr. Campbell. There will be other witnesses following me from the American Council of Voluntary Agencies for Foreign Service. They represent all of the groups that work in this field, including the National Catholic Welfare Conference, CARE, the Church World Service and all of the other agencies participating in this field. will give you very specific figures in this field.

As I understand it, it would be possible to increase very substantially the amount of the food that goes to the hungry overseas through these voluntary agencies if the Government could pay about \$50 million

worth of ocean freight next year.

This would actually be cheaper than paying the storage costs on that same amount of surplus held here in this country.

It would save the taxpayers' money.

Senator Green. It would be a great satisfaction to the people who do contribute to know what the total contributions amounted to, some-

thing worthwhile considering.

Mr. Campbell. Something over 1 billion pounds of these goods were shipped last year by the voluntary agencies and it could become much greater.

## OTHER PROPOSALS

We feel that in the forward look on what needs to be done in technical assistance, that greater use of the land-grant colleges should be made, that we should develop atomic energy in small reactor plants for use in high cost power areas around the world.

Atomic power is becoming increasingly more practical. We should make every effort to help these other countries to help themselves.

We appreciate the opportunity to be heard.

#### INSERTIONS FOR THE RECORD

We would like, if we may, to insert for the record in addition to my prepared statement a series of messages which were sent to the Conference on Technical Assistance held on April 10, messages by former President Harry Truman, Averell Harriman, who was onetime Administrator of the program; Paul G. Hoffman, who was the first Administrator of the Economic Cooperation Administration, and Governor Stevenson and Estes Kefauver.

These are statements which are available here and are pertinent to

We would like an opportunity to submit them for the record at this point.

Senator Green. It seems like a list of possible presidential candi-

dates rather than anything else.

Mr. Campbell. As a matter of fact, it includes everybody who is a potential candidate at the moment. We think that this is very significant because no matter what happens in November, everyone concerned is for this economic aid program and we are happy that it has such a bipartisan support and such universal support.

It has more support among our people, the majority of whom are

farmers, than any other part of the foreign aid program.

Senator Green. Mr. Campbell, we are very grateful for your

(The prepared statement submitted by Mr. Campbell and documents attached thereto are as follows:)

STATEMENT OF THE COOPERATIVE LEAGUE OF THE USA ON THE MUTUAL SECURITY **ACT OF 1956** 

The Cooperative League of the USA has a very great concern for the policy and program of economic foreign aid, for we know that its direction and its effectiveness may shape the destiny of our country and the world in the months and years to come.

#### COMPOSITION OF COOPERATIVE LEAGUE

The Cooperative League is a national federation of consumer, supply, and service cooperatives. Its affiliated member organizations include in their membership approximately 13 million different families who own cooperative businesses of various kinds through which they obtain farm supplies, insurance, consumer goods, electric power, savings and credit, health services, housing, and other needs. These 13 million families represent a very large group of American taxpayers who are willing to bear their just share of the costs of such a program if it contributes to better world understanding, a higher standard of living, and peace.

## ECONOMIC AND TECHNICAL AID

The economic and technical aid program is one of the principal routes through which we can eventually achieve world peace. It is this long-range objective of the program which has the unqualified support of our membership. The resultant lifting of living standards does much toward easing the tensions which exist in a world where two-thirds of the population goes to bed hungry every night.

#### AN EFFECTIVE FOREIGN AID BILL

The Cooperative League believes that an effective foreign aid bill should:

1. Be adequate to meet today's need and responsibility.

2. Realize that technical assistance stimulates economic development and calls for capital for such development.

3. Be flexible to meet changing conditions, including authorization for long-term commitments.

4. Direct an increasing proportion of technical and economic aid through the United Nations.

5. Move forward cooperatively in the economic aid field through a Special United Nations Fund for Economic Development.

6. Make more adequate use of the voluntary agencies on a people-to-people basis.

7. Contain a forward look at economic development, including the uses of agricultural surpluses, construction of atomic energy plants in high-cost power areas, and a study which would analyze the program and needs ahead.

#### MULTILATERAL AID PROGRAMS

On April 29 Ambassador Lodge made a dramatic and highly important statement at United Nations headquarters. He said that "the present world situation is one which requires our giving new emphasis to multilateral programs. We can do this without any additional expense by diverting a percentage of our foreign aid funds to multilateral channels."

We believe this should be the direction of our foreign economic policy. Ambassador Lodge pointed out that this would diminish the need for outbidding the Soviet Union on the technical and economic aid field. Such a policy would also relieve the minds of people in the less developed countries that the United States is merely buying friendship and building military allies.

While it is obviously not possible to put all United States economic and technical aid through multilateral programs, it certainly would be feasible to channel a greater proportion of our aid funds through the United Nations. This would also have the effect of stretching the United States aid dollar by combining it with the funds contributed by the other nations.

The item in the bill providing for \$157.5 million for technical assistance is an omnibus authorization. It contains authorization for both United States and United Nations programs and is almost identical with the requests made last year. Our great concern is that it is not adequate to meet the needs of the hour. Let us point out, however, that only \$15.5 million of that amount is for expanded technical assistance through the United Nations and its specialized agencies. This means that we are putting almost 10 times as much of our technical assistance appropriations into bilateral programs as through a multilateral program. The expanded technical assistance program carried on through the United Nations specialized agencies, we feel, is even more significant than the amount requested for United States contribution.

In a world which is seeking a maximum amount of liberty, freedom, and independence, the United States can achieve its greatest effectiveness by helping people to help themselves. This means helping nations to help themselves, too. The multilateral technical assistance program helps strengthen all of the nations of the free world through concrete, constructive, and fully cooperative activities. The voluntary nature of the contributions of some 70 countries to the United

Nations technical assistance funds means that we have achieved an international

program of organized self-help.

Our investment in U. N. technical assistance of \$15.5 million is met by contributions of other developed countries as well as the less-developed receiving countries. Cash contributions are supplemented by an estimated \$60 million contributed by receiving governments to the local costs of the projects. When these factors are taken into account, the State Department estimates that the United States percentage of the total cost of the program for 1955 was approximately 17 percent. It is contributions of this kind which underline the completely cooperative character of the program which is one of its greatest strengths.

#### SPECIAL INTEREST OF COOPERATIVE LEAGUE IN FAO

Since the majority of members of the Cooperative League are farm families, we have a very special interest in the work of the United Nations Food and Agriculture Organization. The FAO has pioneered in technical assistance ever since its establishment in 1945. It has helped people to grow two blades of grass where one grew before, to raise more adequate crops, and to eliminate disastrous and wasteful plant and animal diseases which had cost hundreds of millions of dollars in reduced food and fiber. The number of people who have actually been saved from starvation through this program is impossible to estimate.

#### TECHNICAL ASSISTANCE WORK OF OTHER SPECIALIZED AGENCIES

Similar things could be said about the technical assistance work of the World Health Organization, the U. N. Educational, Scientific, and Cultural Organization (UNESCO), the International Labor Organization, and the smaller specialized agencies which carry on technical assistance programs.

#### UNITED NATIONS TECHNICAL ASSISTANCE PROGRAM

The enthusiasm for the U. N. technical assistance program is almost universal. While the United States makes the largest dollar contribution to the program, the per capita contributions made by Denmark, Norway, and Canada are greater than the per capita contribution by the United States. Sweden, the Netherlands, Australia, Switzerland and Great Britain are also contributing on a per capita level almost equal to our own. The proposed United States contribution, measured on a per capita basis, is 9.1 cents. This is less for 1 year than a 10-cent candy bar and substantially less than a pack of cigarettes.

It is encouraging to note that 22 countries pledged substantially increased contributions in 1955 over 1954, and while the pledging conference for this year will not be held until this fall, we expect there will be a similar forward move. Another significant fact is that experts from 63 countries are working in some 70 countries and territories throughout the world. In many cases, experts available through the U. N. supplement the United States experts who may come

from fields in which we have an actual shortage of trained personnel.

#### BILATERAL TECHNICAL ASSISTANCE

The United States program carried on through the International Cooperation Administration is very commendable and has our enthusiastic support. This bilateral program has grown in amount and stature over the last 6 years and is now a significant part of our foreign policy. A few years ago this program was limited to technical assistance in the fields of basic education, village health, and elementary agricultural extension. These programs are still being carried on; but today the ICA is also engaged in peaceful uses of atomic energy, in projects such as the Asian Nuclear Research Center, and the training of technicians under bilateral agreements to assist some 28 countries in developing national research programs. In a well-rounded operation the ICA is assisting in development of hydroelectric and other resources, while at the same time helping people improve methods of planting rice, marketing arts and handicrafts, developing cooperative credit systems, and creating patterns of village improvement applicable on a countrywide basis.

The job of improving the lot of the little man in newly developing countries often calls for the exchange of persons who can study techniques in this country as well as providing United States experts on the spot. Another facet of the program calls for "third country training" where people from the less-developed countries study in another country where conditions are closer to those in their

native land than they would be in the highly technical economy of the United States.

## DEVELOPMENT ASSISTANCE

In relation to the development assistance program, another factor should be kept in mind. We have come to realize that technical assistance, as important as it is, becomes a catalytic agent which prepares people for economic development. It calls for a supplementary economic program which will take advantage of the new skills, techniques, know-how, and drive which come almost automatically out of the technical assistance program. The development assistance program provides the funds for this type of activity.

The request for development assistance contained in the bill before you is about the same as it was for last year. This \$470 million request is certainly a reasonable figure—or perhaps a small amount in terms of the growing need.

## SUNFED

Here again, in the field of development assistance, United States dollars could be more effective if used—at least in part—in multilateral programs. One such program has been proposed in the creation of a Special U. N. Fund for Economic Development, popularly known as SUNFED.

There have been gross misconceptions of the role and function of SUNFED. As we see it, in simplified form, this fund would underwrite economic development projects through a joint activity much as the U. N. Technical Assistance Fund underwrites the Expanded Technical Assistance Program. SUNFED would have the same relationship to the United States economic development program overseas as the U. N. technical assistance program has to our own bilateral program through ICA. SUNFED would make it possible for many countries to pool their contributions toward economic development. This would enable us to assist many projects which we cannot now aid, through a joint effort in which the other countries of the world would also participate. Through this device our United States dollars would go twice as far as they go now bilaterally in our own United States programs. The psychological effect of the joint undertakings would be even greater than the economics possible under SUNFED.

The administration has consistently held that it could not afford to participate in SUNFED until the tensions of the cold war were relieved enough to make large-scale disarmament possible. The savings of such disarmament would then be turned into economic development.

In our view, this is putting the cart before the horse. We need to participate actively in SUNFED, encouraging economic development and an increased standard of living, in order that we may relieve some of the tensions and thereby make further disarmament possible.

#### IMPORTANT TO CONSIDER FLEXIBILITY IN FOREIGN AID

Another important factor to consider in making authorizations for foreign aid is flexibility. President Eisenhower has very realistically asked for authority to enter into longer term commitments for assistance to economic development projects. This is designed to permit the United States Government to make commitments up to 10 years for a limited number of projects which are essential in some of the less-developed countries. The President has asked that this authority not exceed an aggregate of \$100 million in any 1 year, a comparatively small percentage of any annual authorization. Such authorization, together with an increased flexibility in use of the foreign-aid funds, would increase the potential effectiveness of every dollar of the taxpayers' money.

#### DEFENSE SUPPORT PROGRAM IS MISNAMED

The United States is losing good will abroad by misnaming one section of this program. The so-called defense-support program is exactly the same kind of economic assistance which is furnished under the name of development assistance to such countries as India, Guatemala, or Israel, where there are no significant military assistance programs. Because of the identity of these types of programs we feel that America's foreign relations would be much better if we used the development assistance title for all of these programs rather than giving the impression in many countries that we are providing economic aid only as part of a tie-in sale as defense support. Here is a place where both our economic interest and our

own foreign policy should dictate our use of the more accurate term to describe our programs of shoring up the economy and providing the kind of fertilizer plants, grain storage, dams, and powerplants which are essential regardless of military considerations.

USE OF AGRICULTURAL SURPLUSES AS CAPITAL FACTOR IN ECONOMIC DEVELOPMENT

To turn a liability into an asset, we would like to suggest the use of United States agricultural surpluses as a capital factor in economic development. These surpluses, measured in dollars, have a value of \$8 billion. Measured historically, they are the largest food reserves in the history of the world and make Joseph and his food stockpile in ancient Egypt seem Lilliputian in character.

A worthwhile program in the use of American foodstuffs abroad for relief purposes is already underway. Such agencies as CARE, National Catholic Welfare Conference, Church World Service, Jewish Joint Distribution Committee, and other relief programs are using two or three percent of the available surplus this year in overseas relief programs. These can be increased substantially if the Congress will appropriate adequate amounts to pay for ocean freight.

Many of the countries that need this food, however, are anxious to pay for it, but would need to pay for it in their own currencies. They are also anxious to stand on their own feet and achieve the independence that we are preaching as a factor in world freedom. To take advantage of this drive for independence and to provide a needed factor in development, we would do well to ship abundant supplies of food and fiber into these countries on loans. The equivalent of a reasonable value could be set up in counterpart funds of the country, such funds to be expanded for construction of irrigation systems, flood control and hydroelectric projects, village improvement undertakings, new developments in medicine and agriculture which could help these people to raise their own standard of living.

# VASTLY INCREASED VOLUNTARY AGENCY PROGRAM URGED

Although some efforts have been made to use the voluntary agencies in overseas technical assistance programs, results have been completely inadequate because of the lack of appreciation of the great role such agencies should play. An effort should be made to induce our major trade-union, farm, cooperative, and educational organizations to participate under a contract program in a vastly increased voluntary agency program. After all, these same voluntary organizations have been responsible for much of the economic growth and development of America. Their assistance overseas could lead not only to greater economic development, but the expansion of the type of institutions which have helped make America great.

One of the institutions owned by trade-union, farm, and cooperative organizations, along with the religious and relief organizations, is the Cooperative for American Remittances Everywhere, popularly known as CARE. Because of its widespread ownership and representation, and because of its decade of experience in operations overseas, CARE could very well expand its program to undertake substantial work in the technical assistance and economic development field. The self-help which CARE is carrying on to date, along with its work with agricultural surplus commodities, has indicated a direction of growth which would well be encouraged and capitalized on for further international development.

# EXPANDED USE OF LAND-GRANT COLLEGES

We believe that the use of the land-grant colleges in the technical assistance program has harnessed the interest of segments of our population which could not otherwise have participated in a technical assistance program. Further expansion of that operation should be encouraged.

# PEACEFUL USES OF ATOMIC ENERGY

The peaceful uses of atomic energy provide horizons for economic development in many of the countries of the world which are almost beyond imagination. In many of the underdeveloped countries manpower is the only available power. Imagine, if you can, what America would be like today if it were dependent only on manpower as its source of energy. Here is a key to economic

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Energy of any kind other than manpower is absent in several parts of the world where natural resources could provide a tremendously high standard of living. Hydroelectric power, so vital to America's development, is not available or has not been harnessed. Coal is expensive, and transportation makes it unusable as an economic source of power. Petroleum calls for great mechanical expenditures not now in sight. It therefore lies in the field of atomic energy where small reactors can provide energy at fairly reasonable cost that we must look for sources of power.

Our own Government is talking about the use of reactors and uranium in such development abroad. Some progress can be expected in this field. Even greater progress will be possible, however, if the machinery of the United Nations is used through the creation of a specialized agency for development of peaceful uses of

atomic energy.

- A.

#### FOREIGN AID STUDY

Senator George and others have recently suggested that the time has come for a study of the long-range aspects of our United States foreign aid program. Such a study is certainly in order and would be very worthwhile. We would encourage the Congress to take the initiative in such a study. We hasten to urge, however, that a study not be made an excuse for delaying the current program. In connection with a study, we urge that a subcommittee take a careful look at voluntary relief, technical assistance and development overseas, and make recommendations on the role of voluntary agencies in the foreign field.

## COMMITTEE APPROVAL OF AID PROGRAM ASKED

Our analysis of the bill before you would indicate that the amount which is being requested for this coming year is substantially the same as for last year with the exception of the larger request for military assistance. development assistance, or economic aid, total \$470 million; for technical assistance \$157.5 million (including work through the U. N. technical assistance program and the Organization of American States); plus \$101.75 million for all other programs, including the U. N. Children's Fund, the refugee program, etc. If we have any criticism of the amount used in this field, it is that it may be inadequate to meet the need as rapidly as is necessary to attain a just and durable peace.

We urge that this committee approve this very reasonable program. urge, too, that careful consideration be given to supplementing and expanding this worthwhile program along the lines we have suggested-more participation in multilateral programs, expanded economic aid, longer term commitments and greater flexibility, constructive use of agricultural surpluses, increase of the people-to-people aspects of the program by greater use of the voluntary agencies

and land-grant colleges.

#### FOREIGN LOOK CONFERENCE

This committee will be interested in knowing, we feel sure, that representatives of about 75 national organizations participated in a recent conference on the Forward Look in Technical and Economic Development. A very large section of the population was represented in the organizations which participated. The conference, however, was one assembled strictly for informational purposes with no commitments, no resolutions, and no formal action anticipated. We would like to request that messages to the conference from Paul Hoffman, Gov. Averell Harriman, Senator Estes Kefauver, Adlai Stevenson, and Harry Truman, be made a part of the record of this hearing.

MESSAGE FROM PRESIDENT HARRY S. TRUMAN TO THE FORWARD LOOK CONFERENCE ON TECHNICAL AND ECONOMIC DEVELOPMENT, STATLER HOTEL, APRIL 10, 1956

I am delighted to send greetings to your Forward Look Conference. Indeed, I am sorry I cannot be with you, as the subject of your gathering—technical and economic development—has been very near to my heart since I had the

privilege of launching the point 4 idea in my 1949 inaugural address.

Since then, overseas aid has become an increasingly important aspect of our foreign policy—and rightly so, because helping people to help themselves is in the best tradition of Americanism. Indeed, even the Russians have recognized the impact of our program, and have paid it the compliment of imitation. It is all the more unfortunate that so many voices are being raised to question its value, and to call for a reduction in our efforts.

Actually, we need to move forward with fresh vigor and enthusiasm. Think, for example, of what a real effort to bring water to the deserts of the Middle East would mean. As living standards rose, the tensions in that troubled area would inevitably be reduced. When people are working together, they are much less likely to fight.

Your conference is an encouraging sign that many Americans do care deeply

about this. Keep up the good fight!

STATE OF NEW YORK, EXECUTIVE CHAMBER, Albany, April 5, 1956.

Mr. DAVID C. WILLIAMS,

Program Chairman, the Forward Look,

Washington, D. C.

DEAR MR. WILLIAMS: I want to congratulate you and all associated with the National Conference on International Economic and Social Development for sponsoring your 1-day workshop on the forward look in technical and economic

development

We vitally need a forward look on that question, one of the greatest of our day. As one who has played a part in developing and administering our overseas economic aid programs, I know how absolutely essential it is for the strength of the free world that we extend economic and technical aid to the peoples struggling upward to a higher living standard and who need help to help themselves.

By giving them a hand in achieving a better life, we help build the conditions

of peace and freedom so vital to our own security.

 $\hat{\mathbf{I}}$  know your conference will succeed in concentrating public and congressional

attention on this most important issue.

Warm greetings and best wishes to you, your many distinguished guests, and all of the many representatives of various organizations participating in your 1-day workshop. I wish you every success, and God speed you.

Sincerely,

AVERELL HARRIMAN.

STUDEBAKER-PACKARD CORP., Los Angeles, Calif., April 5, 1956.

Mr. WALLACE J. CAMPBELL,

The National Conference on International Economic and Social Development, Washington, D. C.

DEAR MR. CAMPBELL: Your letter of April 3 is before me. It is a matter of deep regret that I cannot attend the conference which you have called for

April 10.

Economic aid and technical assistance have an important place in any program for waging the peace. Programs in these fields in the past decade have been extensive. There have been successes and there have been failures, but no one can question the overall contribution they have made to rehabilitation and development.

The nations which have won their independence in the recent past need and can profit by such assistance. We should draw on our past experience to make certain that no dollars are spent wastefully, but we should proceed vigorously in the development of a program to give needed aid to these new nations to help them achieve political stability and economic self-sufficiency. As a first step, the proposals made by Secretary Dulles for long-term economic aid should be vigorously supported.

Sincerely yours,

PAUL G. HOFFMAN.

Message From Gov. Adlai E. Stevenson to the Forward Look Conference on Technical and Economic Development, Statler Hotel, April 10, 1956

I am pleased to send my best wishes to the Forward Look Conference and to congratulate you for bringing together representatives of so many organizations to consider the problems of economic and technical development.

I have many times pointed out that much of the world in Asia, Africa, and the Middle East is trying to catch up with the Western industrial and technological revolutions. And they are trying to accomplish this mighty transformation by the methods of consent not coercion. A policy based just on anti-Communist pronouncements or one of exclusive emphasis on military defense is not in the spirit of this great movement of the 20th century and will win few hearts. The challenge for us is to identify ourselves with this social and human revolution, to encourage and aid the aspirations of half of mankind for a better life, to guide these aspirations into paths that lead to freedom.

In my view, a well-considered and carefully administered program of economic and technical assistance to underdeveloped areas should be a fixed part of the policy of a developed and prosperous country. I have called the revolution in the underdeveloped areas of the world the revolution of rising expectations because countless people are becoming aware of the modern world and demanding more of the good things of life. Programs on the pattern of point 4 can contribute greatly to meeting these expectations. I hope that your conference is successful in developing new methods and ideas for making American assistance programs a truer reflection of our sense of moral responsibility.

#### MESSAGE FROM SENATOR ESTES KEFAUVER

Please convey my best wishes for a most successful workshop to the members of the National Conference on International Economic and Social Development.

Those of us in the United States Senate who have long worked toward a forward-looking program of technical assistance know how valuable the support of an organization like yours has been in making possible our dramatic point 4 and technical assistance programs.

Today—with the Soviet Union increasing its offensives on the economic front it is more vital than ever that we place the greatest possible emphasis on longrange programs of economic aid for underdeveloped nations. Just last summer, I traveled throughout southeast Asia, and was struck again by the value of our technical assistance programs—both to the peoples of the nations whom we

are assisting and to our own prestige in the world.

With other Members of the Senate, I am constantly searching for new ways to promote overseas economic aid. In a recent speech in Maryland I proposed that our disarmament representatives suggest a mutual reduction of 15 percent in the arms budget of the United States and the Soviet Union, with one-third of the savings to be allocated to a joint pool administered by the U. N. for economic aid to underdeveloped areas. I suggested, too, that the program be administered by the United Nations-so that neither the Soviet Union nor the United States could individually claim credit for its successes or be blamed for its failure.

I said at that time, and I still believe, that a joint endeavor of this nature, administered impartially by the U. N. and combining a reduction in the tools of war with an increase in the tools of economic self-sufficiency for a third of the world might constitute our first real advance toward peace in 10 years.

I am confident that through continuous study and effort, and with the support of private organizations such as yours, our Nation must and will devise a forward-

looking program of technical and economic development.

With sincere congratulations for the work you have done in this most vital

Senator Green. The next witness is Mrs. Virginia M. Gray, executive secretary, Citizens Committee for UNICEF.

# STATEMENT OF MRS. VIRGINIA M. GRAY, EXECUTIVE SECRETARY, CITIZENS COMMITTEE FOR UNICEF

Mrs. Gray. I am Virginia M. Gray, executive secretary of the Citizens Committee for UNICEF.

I took the request of Mr. O'Day very seriously, Senator Green, when he asked that the statements be very brief.

Senator Green. Do you have a short statement?

Mrs. Gray. It is a very short statement but I will be happy to file it. I will not read the whole statement, but I would like to speak to several points if I may.

Senator Green. Then you may file your written statement. Mrs. Gray. Thank you very much. (The prepared statement of Mrs. Gray is as follows:)

STATEMENT OF MRS. VIRGINIA M. GRAY, EXECUTIVE SECRETARY, CITIZENS COMMITTEE FOR UNICEF, ON BEHALF OF THE AUTHORIZATION FOR THE APPROPRIATION FOR THE UNITED NATIONS CHILDREN'S FUND

I am Virginia M. Gray, executive secretary of the Citizens Committee for UNICEF. The Citizens Committee for UNICEF is an informal clearinghouse of legislative information for a number of national organizations which support continued United States participation in the United Nations Children's Fund (UNICEF). Some of these organizations appear before you individually to present their views. Others, listed below, have authorized this joint statement:

American Association of University Women

American Parents Committee

Association for Childhood Education International

Child Study Association of America Child Welfare League of America, Inc. Friends Committee on National Legislation

Methodist Church-Women's Division of Christian Service of the Board of

Missions

National Association of Social Workers

National Board of Young Women's Christian Association

National Council of Jewish Women

Spokesmen for Children, Inc.

United Church Women

Women's International League for Peace and Freedom

Many members of our organizations have followed the work of UNICEF from its beginning. They have been deeply gratified by its accomplishments and often amazed that so much good has been achieved with such a relatively small amount of money. Our organizations have demonstrated their approval by voting to support continuing United States contributions for UNICEF in order that this work may expand to reach more of the world's children who are suffering from the evils of hunger and such medieval diseases as yaws, leprosy, or malaria that should and can be completely eradicated from the 20th century world.

I am deeply happy today to have the privilege of appearing before you to report the views of these organizations in regard to UNICEF. It would seem especially appropriate now to survey the achievements of the Children's Fund since this year marks the 10th anniversary of its establishment. However, instead of a review of past accomplishments with which you are familiar, I should prefer to stress the urgent needs of children that remain unfulfilled and for which you are asked

to authorize a contribution from the United States.

The executive branch has requested an appropriation of \$10 million as the United States contribution to the Children's Fund during the calendar year 1957. Our organizations heartily support this request. In the total mutual security program which this committee is considering, the UNICEF contribu-tion represents one-fifth of 1 percent of the total; yet, if an evaluation were possible that could measure the results achieved by each dollar spent for UNICEF, this program could be seen clearly as one of the most effective instruments of United States foreign policy in terms of the good accomplished.

# THE NEED GROWS

As the emphasis in the work of the Children's Fund has shifted from emergency relief to the planning of long-range programs for the permanent improvement of child health and welfare conditions, assisted countries are recognizing more and more fully the fact that a great many of their children have urgent basic needs that should be met. Thus UNICEF aid is becoming increasingly practicable locally as the recipient countries develop their own understanding of how to help their children effectively. This has resulted in the increased need for funds for the planning of such projects as:

(1) The drive to eradicate malaria from the world.

(2) A campaign to attack yaws on a continentwide basis in Africa.

- (3) Expanding efforts to develop and make available to children proteinrich foods in areas of chronic malnutrition.
- (4) Growing acceptance of basic maternal and child welfare projects.

(5) Cumulative growths in the capacity of needy countries to utilize all types of UNICEF aid.

## UNITED STATES LEADERSHIP IS VITAL

Our organizations endorse this broad vision on the part of the UNICEF Board. We believe that United States leadership has contributed a great deal to the success of the work so far. We believe that the United States should continue to exercise a vital role in this constructive and humanitarian work in the years immediately ahead. It becomes more important than ever, in the present state of international relations, that no one at home and no other country be allowed to weaken the prestige and good will that have accrued to the United States from its share in this work.

United States leadership has been vital, not only in terms of dollars given but also in setting an example to other countries and in stimulating contributions from other governments. In 1955 a total of \$6,630,771 was received by UNICEF from 71 governments other than the United States. This represented an increase of 25 percent over such gifts the previous year, and an increase of 110 percent over 1950 when 29 other nations gave \$3,162,000. The UNICEF office estimates that more than \$7 million will be received from governments other than the United States in 1956 as a result of their very strong efforts to enlist the increased financial participation of other governments. It is hoped that there will be a further increase in 1957. UNICEF, based on voluntary gifts from many countries, is an inspiring example of successful international cooperation.

#### CHARACTERISTICS OF UNICEF THAT HAVE CONTRIBUTED TO ITS UNIQUE POSITION

The Children's Fund has demonstrated beyond a doubt the soundness of its conception and the efficiency of its operation during the 9 years of its existence. 1. It has focused attention on the needs of children. Activities for the benefit of children, removed from political or ideological controversy, attract great

public interest and support. 2. It has maintained a practical approach to the problem of helping children by

selecting those programs in which the recipient country will be in a position to continue after UNICEF's immediate assistance has terminated. Thus the gains are made permanent. 3. UNICEF aid, primarily in the form of supplies and equipment, is tangible

and produces immediately apparent results. UNICEF functions thus in support of the technical activities of other U. N. agencies such as WHO, FAO, and the

United Nations Bureau of Social Affairs.

4. Coordination of policy and of operations, by UNICEF and other U. N. agencies working in related fields, has been remarkably effective. In a report by the Secretary General of the United Nations to the Economic and Social Council on a recent study of problems of coordination, the conclusion was reached that UNICEF and the other agencies accomplish by joint action progress

which no one of them could achieve alone.

In conclusion, may we urge you, the members of this committee who share with all of us a firm belief in the tremendous value of UNICEF's work, to assure the continued leadership of the United States Government and the American people in this great work for a more hopeful future for the world's children. The fact that over 100 million children in more than 100 countries and territories have already benefited, and that in 1956 an additional 38 million will be assisted, is ample testimony of why our continued support is essential. contribution of \$10 million 1957 is certainly an irreducible minimum for the United States share in the work of UNICEF.

Mrs. Gray. I feel that I would like to stress especially the list of organizations that has actively endorsed this statement. Senator Green. They are in your statement?

Mrs. Gray. They are here.

I will not read them. I simply wanted to say since you have had several witnesses already this morning from some of the groups here, that they were testifying at that time on the whole mutual aid program instead of on just the UNICEF part which they go along with this statement on separately.

I think it would be especially appropriate at this time to review the achievements of UNICEF but I do not think we need to do that for

you, Senator Green.

And I think since this is the 10th anniversary, it is important instead perhaps to look ahead, to go ahead to the future.

Senator Green. Yes.

Mrs. Gray. And point to a few of the needs that remain to be filled.

Senator Green. Suppose you do that.

Mrs. Gray. In the years ahead of us. I understand that the executive branch witnesses have not presented the administration's request before this committee yet, that they are to do that this afternoon, but I do want to say that our organizations will support—

Senator Green. These public sessions serve a different purpose, to

give information to the public as well as to the committee.

The discussions in executive session are not open to the public.

Mrs. Gray. I did not want to imply any criticism at all, Senator. I just said that because I did not know that the committee had had a chance to see what the administration's request is before it had been presented.

Senator Green. Oh, yes; we have had that opportunity.

# ADMINISTRATION REQUEST FOR UNICEF

Mrs. Gray. Our organizations do want to support the request for \$10 million for UNICEF for the year ahead as an absolute minimum for the contribution of the United States for this year. In the total mutual security program, the UNICEF contribution represents one-fifth of 1 percent of the total. It is a very, very small part of the whole mutual security program, and yet each penny that is contributed to UNICEF does a great amount of good.

For example, the penicillin to treat one child for yaws now costs 5 cents. The efficiency of operations has reduced the cost for one child

to 5 cents, which I think is a figure that is really remarkable.

## UNICEF'S NEEDS AHEAD

The needs ahead that are most important seem to me to be first the drive to eradicate malaria from the world due to the fact that the malaria-bearing mosquito is becoming resistant to DDT; it becomes increasingly important to eradicate malaria while the mosquito is still susceptible to the power of DDT.

Second, a campaign to attack yaws on a continent-wide basis in

Africa seems especially important.

The others include the expanding efforts to develop and make available to children protein-rich foods in areas of chronic malnutrition.

Fourth, the growing acceptance among many of the less-developed areas of the basic maternal and child welfare needs of their population.

And fifth, the cumulative growth in the capacity of needy countries to utilize all types of UNICEF aid makes its possible for help to be taken to many children who have not been reached in the past.

We believe very strongly that the leadership of the United States should continue in this work, and that no one and no country should be allowed to weaken the prestige and the goodwill that have accrued to us from the United States share in this work.

So I would just like to conclude by urging the committee to give 10

million.

Senator Green. Thank you very much, Mrs. Gray.

Mrs. Gray. Thank you.

Senator Green. Mrs. Albert E. Farwell, National Congress of Parents and Teachers.

# STATEMENT OF MRS. ALBERT E. FARWELL, NATIONAL CONGRESS OF PARENTS AND TEACHERS, VIENNA, VA.

Mrs. FARWELL. Senator Green, I have a 1-page statement which I would like to read.

Senator Green. I think you stand out conspicuously as a model in that your entire statement is 1 page.

Mrs. FARWELL. There are many pages we could write, but our

support can go on 1 page.

I am Mrs. Albert E. Farwell, a member of the Washington committee on legislation for the National Congress of Parents and Teachers. I am submitting this statement for Mrs. Clifford N. Jenkins, national chairman of legislation. I appreciate very much this opportunity of appearing before you today to represent the National Congress of Parents and Teachers, which is a volunteer group with nearly 10 million memberships.

#### SUPPORT FOR UNICEF

Our organization's continuing interest in the growth and development of the United Nations Children's Fund program is well known to you. We are proud of the 10-year record of the United States in this humanitarian effort, and are most desirous that it continue to expand in its present self-help form.

We regard the \$10 million UNICEF request for fiscal 1957 as the absolute minimum needed to support the worthy projects which have

received and will receive UNICEF endorsement.

We would like the United States to continue its leadership in this program which exemplifies our country's enduring concern over the welfare of children all over the world.

Nations requesting UNICEF aid have contributed matching funds, or better, and are taking over the resultant programs as fast as their

economies and know-how will allow.

The National Congress of Parents and Teachers reiterates its staunch support of this program and of the \$10 million request for the coming year. We believe that all children are our children, wherever they may live.

Senator GREEN. I congratulate you on your short but very effective

statement.

Mrs. FARWELL. Thank you.

Senator Green. The next witness is Mr. E. Raymond Wilson, executive secretary, Friends Committee on National Legislation.

# STATEMENT OF E. RAYMOND WILSON, EXECUTIVE SECRETARY, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Mr. Wilson. Mr. Chairman, I would like to submit this statement for the record and speak to it for about 2 or 3 minutes.

Senator Green. Very well, proceed along that line. (The prepared statement of Mr. Wilson is as follows:)

STATEMENT OF E. RAYMOND WILSON ON BEHALF OF THE FRIENDS COMMITTEE ON NATIONAL LEGISLATION

My name is E. Raymond Wilson. I am executive secretary of the Friends Committee on National Legislation, 104 C Street N.E., Washington 2, D. C., an organization which seeks to represent many of the concerns of Friends, but which, of course, does not claim to speak for the whole Society of Friends, whose democratic organization does not lend itself to official spokesmen.

I appear here today in support of the authorization for extension of technical cooperation, humanitarian economic aid, and the refugee and children's relief programs of the mutual security program.

#### NEED FOR RE-EVALUATION OF POLICIES OF FOREIGN AID PROGRAM

Recent events indicate the need for a basic re-evaluation of the policies and aims of our foreign aid program. I would like to discuss briefly one view of the underlying aim of this program and suggest that if we can arrive at a sound basic philosophy, this program can become more effective in carrying out our goals of helping others and of establishing strong stable independent governments and at the same time allay the mounting criticism of the program.

#### FOREIGN AID PROGRAM SHOULD BE POSITIVE PROGRAM "FOR PEOPLE"

 Our foreign aid and technical cooperation program should be viewed as a positive program for people ,not a negative reaction to another nation's foreign policy or even primarily viewed as a policy in the strict and immediate self-interest of the United States

The United States program of technical cooperation and economic aid should arise from a concern for the welfare of every individual in every part of the world. It should be designed to help that part of the human race, about twothirds of whom are sick or illiterate or politically or economically disadvantaged, develop their God-given potentialities with what assistance and resources the more highly favored nations and areas can share with them. It means primarily helping others help themselves to do the things they want to do toward our joint community aspirations and ideals. Programs must be geared to the needs and ability of countries to absorb them.

This kind of program must express both a deep, passionate concern for people and a determination that they need not suffer from conditions which are not their fault. We must meet the zeal of the Communists with comparable intensity and vigor, and we're in a race for time. But this must be an effort for people, not just against communism. We should settle into this task on a long-

range basis.

As a committee we are confident that the people of this country would strongly support such a positive program with leadership from the administration and from Members of Congress such as you who serve on this important committee. A positive program of help for the disadvantaged has for years been a part of the philosophy of government in this and other countries so far as the citizens within the country are concerned. This belief in the general welfare underlies our important social legislation. In our Nation it is the responsibility of those more favored to share with those in less fortunate circumstances. of all is increased by this sharing. This concept of the "general welfare" can and should be extended to encompass those outside our borders for the same reasons that we find it valid within our own country.

Barbara Ward, British author and economist, writing in the New York Times on March 11, 1956, urges that the West find a positive political philosophy of assistance "so that the program of foreign aid may be based not solely on expediency, self-interest, Communist competitiveness, or the cold war, but upon

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conviction and principle \* \* \* Our only hope is to become one world in moral responsibility as well. Within the national community, we have discovered, in the last century, one key to a shared sense of moral solidarity in the principle of the general welfare'—in other words, in an agreed sharing of wealth between well-to-do and underprivileged. This technique only waits to be extended, as a matter of conviction and principle, to the world of nation-states which now make up one neighborhood in our shrinking, atomic world."

Indeed it is safe to say we have already adopted this philosophy in certain of our aid programs. United States support for the United Nations Children's Fund has been strong and steadfast, but this support did not arise as a reaction to the Communist challenge, and only in a general and ultimate sense can it be said to be in the strict self-interest of the United States. Rather our support for the Children's Fund arose from a felt need, a compassion on the part of the American public and their leaders for the wants of the world's children. And this compassion and sense of responsibility for all men everywhere provided the material means to help meet this pressing need.

Further consideration ought to be given by this committee to the encouragement of nongovernmental and noncommercial agencies in carrying out technical cooperation projects. With rapidly increasing enrollments, colleges and universities need to be able to do more effective long-time planning for faculty

participation in work abroad.

One of the great psychological advantages of an organization like the American Friends Service Committee doing technical cooperation in the villages of India is that they are able to explain that this is a cooperative venture on the part of Government and private agencies with no political strings attached. However, if this kind of an arrangement is to continue unhampered, administration officials need more discretion in security clearance and other legal procedures. It would be unfortunate both in India and in the United States if such agencies would feel impelled to withdraw because the United States regulations and procedures were so inflexible that a nongovernmental agency felt that it could not operate satisfactorily under them.

LABGER, MORE PERMANENT PROGRAM OF WORLD ECONOMIC DEVELOPMENT NEEDED

2. If the United States is to maintain an expanding industrial and agricultural economy and to achieve a sound but rising economy a much larger and more permanent program of world economic development is necded.

In fact, it would be desirable to drop the term "foreign aid" and think in terms of world development including the increasing needs of the United States in an interdependent world.

Foreign trade and the exchange of goods and services with the peoples of other countries is our largest single industry. With a rapidly increasing population here, if we are to retain a rising standard of living and an expanding economy, it is to the economic self-interest of the United States to encourage economic development on a world scale both from the standpoint of markets

and from the standpoint of raw materials and supplies.

Peter Drucker, in an article entitled "America Becomes a Have-Not Nation" in the April Harpers, points out our increasing dependence on other nations for raw materials, and makes some rather startling projections of our future needs. He emphasizes the necessity of increasing exports if the United States is to earn the required foreign exchange to pay for the imports needed to sustain our growing industrial system. He urges that America take the lead in promoting the rapid economic growth—and especially the rapid industrial growth—of the raw material producing countries. "The rapid industrialization of the countries that produce raw materials is, therefore," writes Mr. Drucker, "the best investment the United States can make in its own economic future. It is, moreover, the foremost ambition of these countries themselves."

Such a program will require long-range commitments and sizable amounts of public investment capital for such things as education, sanitation, communica-

tions, and transportation, as well as increasing sums of private capital.

Economic aid and technical cooperation programs should be divorced as far as possible from military considerations, if they are to build the kind of international stability and sense of partnership needed for a strong world community of economically stable nations.

Around 80 percent of the money in this proposed authorization is for military aid or economic activities to support military power in the various countries.

When will we learn that we cannot feed people with bayonets, cannot satisfy their hunger for faith with hydrogen bombs, cannot create a democratic world with bullets?

## FOREIGN AID PROGRAM SHOULD BE A COOPERATIVE EFFORT

3. Our foreign aid program should be a cooperative effort among the nations of the world to raise living standards and to wage a common war on hunger, disease, poverty, and illiteracy, increasingly through the United Nations

The United Nations, which is growing in the confidence, trust, and esteem of the people of the world, seems to be the logical channel through which the United States efforts in the technical cooperation and economic aid field should increasingly flow. United States Ambassador to the United Nations, Henry Cabot Lodge, Jr., has suggested increasing United States aid through the U. N. program. The report of Brooks Hays and Chester Merrow, members of the House Committee on Foreign Affairs, on the Tenth Session of the General Assembly of the U. N. states: "It is urgently necessary that in the future we make far greater use of the U. N. system for foreign aid than we have in the past."

Many benefits stem from a United Nations program. Such a program can draw on technical personnel and experience from all over the world and provide an opportunity for people in all countries to help others. A U. N. program can remove one of the most damaging charges against the present United States bilateral assistance program—that it may tend to control and dominate the internal or external policies of other nations. United States dollars go farther when pooled with contributions from other countries in the U. N. program.

Those who counsel caution in overloading the U. N. are undoubtedly urging a thoughtful course, yet there would appear to be opportunities for increased assistance through the U. N. that have not yet been accepted. The United States has so far failed to join the Special United Nations Fund for Economic Development (SUNFED) which would provide a splendid opportunity to share in a U. N. program of economic aid. Officially, so far as the State Department has expressed its view, the idea of such a fund for development has been linked with world disarmament—that is, the utilization of savings through disarmament for develop-While it is important and imperative to work for universal disarmament under enforceable law, we can't wait for disarmament to undertake a much more adequate economic development program. Technical cooperation programs and economic development must be expanded rapidly, even if there is no political progress toward disarmament. Indeed, the improvement of economic standards may help to decrease tensions, and in turn improve the chances for achieving disarmament.

At the present time the United States carries on technical assistance programs both on a bilateral basis and through the United Nations expanded technical assistance program. There would appear to be no sound reason why the same procedure should not be used with economic aid through both a bilateral program and through SUNFED. This United Nations program has tremendous appeal for those in underdeveloped countries, and the withholding of essential United States approval is often difficult for those in other countries to understand.

The report of the Committee on Foreign Relations (Rept. 1956) just released under date of May 7, 1956, summarizes very well the advantages of the U. N. expanded program of technical assistance, but doesn't argue strongly enough for increasing this multilaterial program both by urging all nations to increase their contributions and by recommending that the United States contribute more than

\$15 million.

The U. N. technical assistance program, as has been suggested by David Owen, Chairman of the U. N. Technical Assistance Board, can be trebled in the next 5 years and expanded much beyond that if a SUNFED program should be approved. The present authorization requested for the U. N. technical assistance program of \$15.5 million is only about 10 percent of the amount requested for the United States bilateral technical assistance program.

An increase in United States aid through the U. N. would probably require a reevaluation of the rigid percentage limitations now used to determine United States contributions. Contributions based on a percentage of a nation's income, needs, and capacities would seem to be more realistic. In determining the levels of contributions a useful distinction might well be drawn between administrative and operating expenses. This would make it possible for the United States to contribute its normal percentage for the administrative budget, and observe a limitation which would insure that no one country could dominate the work

of the United Nations or its specialized agencies. Because of our large national income and the deep interest we should exhibit in world recovery and in advancement for the underdeveloped areas, a division of budgets would provide an opportunity for the United States to take a much larger share of the underwriting of the actual operating programs. In fact, that is about what happens now in the U. N. technical assistance program, and in caring for refugees in Palestine and Korea.

Mrs. Virginia Gray has already testified in behalf of about a dozen organizations, including the Friends Committee on National Legislation, in support of the United Nations Children's Fund. I need only add the hearty endorsement of the Friends Committee for what she had said so well in testimony before this committee for this very worthwhile humanitarian program for tens of millions of children around the world. In the House hearings, Dr. Martha Eliot gave a vivid picture of how much is being accomplished for children with the modest expenditures for children, which we would like to see increased.

We wish to make a special appeal for two specific programs in addition to the

programs of economic aid and technical cooperation.

#### UNREF

# 4. United Nations Refugee Fund (UNREF)

The Second World War which ended more than 10 years ago is just a memory for most, but for a considerable number of refugee men, women, and children,

estimated to number about 300,000, it is still a bitter, living reality.

The United Nations Refugee Fund, established as a result of General Assembly action on October 21, 1954, and carried out under the direction of the United Nations High Commissioner for Refugees, hopes to find a permanent solution to this pressing problem through a number of programs. Emigration of refugees is promoted where possible. A variety of programs are in operation to help refugees integrate into their present country of residence. Emergency assistance is also provided for the destitute, the sick, the aged and those in transit. The UNREF program supplements the United States escapee program and the work of the Intergovernmental Committee on European Migration.

This is the second year of an expected 4-year \$16 million program, and the United States is asked to contribute \$1.5 million for the 1956 program, \$800,000 as a partial appropriation for 1957, and to authorize the use of about \$200,000 of last year's appropriation, which was unused then because contributions from other governments did not meet the percentage figures set by Congress. We urge this committee and the Congress to approve all of these requests. The full amount requested would appear necessary if the 4-year goal is to be met.

We, in this country, escaped most of the ravages of the last war and, because of distance, we have, unlike many European countries, even escaped having the refugee problem thrust upon us in a major way. We should do all in our power to aid in finding a permanent solution to this problem which will lift these

people out of the despair which they now suffer.

#### OCEAN FREIGHT

5. Ocean freight costs of shipment of relief supplies and agricultural surpluses

During fiscal 1955 and 1956 to date, 18 voluntary agencies distributed to needy
people abroad approximately 1 billion pounds of agricultural surplus commodities, chiefly dairy products. Recently wheat, corn, rice, and dry beans have
been added to the list of commodities available for distribution by these agencies.
With the addition of these bulky commodities, ocean freight assumes increasing
importance as a limiting factor in the ability of the voluntary agencies to use
our surpluses. In many ways, distribution on a person-to-person basis, which is
feasible only through the voluntary agencies, is the most satisfactory procedure.

There were provisions in the agricultural bill passed by the House and Senate but vetoed by the President on April 16, and again in the farm bill H. R. 10875 passed by the House of Representatives on May 2, which would provide funds for reimbursement of ocean freight for shipment overseas of surplus agricultural commodities by voluntary agencies. I understand these provisions are also in the agricultural bill as reported out of the Senate Committee on Agriculture and now before the Senate. If this provision should be enacted into law before the mutual security legislation passes, then this item—section 409 (d)—could be eliminated. If the funds are not provided for this purpose from Commodity Credit funds, then this item should be more than doubled, in order to make it

possible for these agencies to distribute the estimated supplies which they could

move in this way.

On the other item in section 409 (c) for voluntary relief shipments of clothing and other donations given by people in this country for the use of needy people abroad, the sum of \$1,400,000 should be increased to \$3 million. This section provides for ocean freight reimbursement for voluntary gifts from people of the United States of clothing, handtools for trade and agriculture, medical and hospital supplies, books and school supplies, donated canned and special foods, and other self-help supplies.

#### SUMMARY OF RECOMMENDATIONS

In short, we have appealed for a long-term program of expanding foreign aid and technical cooperation in a worldwide effort for economic development channeled increasingly through the United Nations (which might require 1 or 2 percent of our national income), coupled with the carrying out of our responsibility for resettlement of refugees, for improving the health and education of the world's children, for the widest possible sharing of our agricultural surpluses-all in a spirit of humility and gratitude for the blessings of abundance with which a gracious God has blessed us far beyond what we deserve.

Mr. Wilson. My name is E. Raymond Wilson.

I am speaking for the Friends Committee on National Legislation in behalf of the extension and expansion of the program of technical cooperation, humanitarian aid programs, relief and refugee and children's programs in the mutual security bill.

The first point this testimony stresses is the question of attitude. would like to associate myself very much with the general emphasis of the statement by the Congregational Christian Council for Social Action proposing the extension of the idea to the world of general welfare which we think of in terms of this country, and that we look upon the human race as a human family for which we have mutual opportunites and responsibilities.

The question is raised in this section about the point in the report of the committee of which you are a member that has been published this week on technical assistance and related programs regarding the

relation of voluntary agencies.

# PROBLEM OF REGULATIONS ENCOUNTERED BY VOLUNTARY AGENCIES

We think that program might be encouraged and expanded and particular consideration given to the matter of regulations and other questions that might make it difficult for agencies to fulfill their proper role in this important work.

The colleges and universities have been asking for longer time planning so their personnel questions can be worked out over a period

Agencies like the American Friends Service Committee find questions of security clearance and regulations sometimes a problem in working out these policies.

The second part of this testimony, Mr. Chairman, deals with the

question of economics.

Could we drop the concept of foreign aid and think in terms of economic development?

# EMPHASIS ON ECONOMIC ASPECTS

Mr. Drucker, Peter F. Drucker, in the April Harper's Magazine has a very challenging article in which he makes the point that if we project our needs as a Nation over the next 20 years, we will find that to maintain and expand an industrial and agricultural economy, we will need very sizable amounts of exports over what we now need, and that will mean that to pay for those imports, we need to be concerned about paying for them by the increase of our exports, and that therefore even for our own economic self-interest in the future, the development of the underdeveloped world means the enlargement of our customers and our area for trade and for the building of our own economy.

We are apprehensive about the fact that between 80 and 90 percent of this program is military, and you will see the emphasis of this testi-

mony is on the economic aid aspects of the program.

## MULTILATERAL AID PROGRAMS

The third point has to deal with the methods and mechanics. We encourage the establishment of United Nations Special Fund for Economic Development, SUNFED, because we feel that public capital is necessary in addition to private capital if we are going to help countries like India, Indonesia, the Philippines, Indochina, South Korea, Japan and the other nations that are emerging into independence with the development of communications, of education, of sanitation, and the kind of conditions in the society where the advancement of standards of living is possible.

Also, the percentage of our aid funds and our technical cooperation

funds through the U.N. might be increased.

#### SEPARATING ADMINISTRATIVE AND OPERATING FUNDS

We have raised again the question that we have raised a number of times before as to whether it would be feasible to divide administrative funds from operating funds, and so far as administration is concerned, retain percentages in terms of our contributions in something like the balance we have now, because no one wants the United States to take an undue proportion of those funds to the disadvantage or to the lack of responsibility of other countries.

But in the operating field we might think in terms of our larger resources and our larger opportunities, so that those funds might not

necessarily be limited by the percentage ratios.

Perhaps the whole matter of percentages ought to be given more consideration because there is a job to be done and we do not want to play arithmetic with human misery.

# SUPPORT FOR CHILDREN'S FUND

Mrs. Gray has already testified for our committee in regard to our support of the Children's Fund.

There are two specific points, Senator, that I would like to make

in closing.

## REIMBURSEMENT FOR OCEAN FREIGHT CHARGES

One is support for the enlargement of the funds for reimbursement of ocean freight to voluntary agencies. That was provided for—

Senator Green. Is that point 4 in your brief?
Mr. Wilson. Yes, on page 4. That was provided for in the agricul-

tural legislation.

Senator Green. That is page 5; is it not?

Mr. Wilson. That is right; yes, page 5. That was provided for in the agricultural legislation which passed the House and the Senate but which was vetoed by the President, an amendment to make it possible for those funds to be provided through the Community Credit Corporation.

That legislation is before the Senate and it is unclear yet as to what

disposition may finally be made of it.

If that is provided for in the farm legislation, then the item in the mutual security bill for the ocean freight for agricultural surpluses

could be dropped out of this legislation.

In any case, those funds ought to be doubled or tripled over the original estimates which were provided some months ago, because of the making available of grains like wheat and corn and the increased amount of surpluses here and the increased need abroad.

There is one item, however, in the ocean freight funds for the regular programs of donated commodities, clothing, medical supplies, books, and other gifts from the people of America to the people abroad.

That item in the original estimates was \$1,400,000. I think the experience of the American Friends Service Committee and other agencies, and they will be speaking next, I believe, would indicate that those funds might well be doubled or even more to see that there is no difficulty in the transfer of these supplies from the United States to the recipient countries abroad.

#### U. N. REFUGEE FUND

It is a very small item but I think a very important one. The last thing I would like to mention specifically is the United Nations Refugee Fund, the special emergency fund which was set up a little over a year ago in which Senator Smith had a very active part when he was one of our delegates to the U. N., to see if over the 4-year period beginning last year the remaining people who have been the victims of the Second World War or religious or political persecution who are still unsettled might find permanent homes either where they are now or in some other country.

That, of course, does not include all the refugees that are in the world because they run up into the millions, but this particular group, since they have been dispersed for so long, I think do deserve the consideration of the United States, and we would encourage this committee to appropriate the full request, including the unexpended funds for last year, since the program did not get under way until the year was along, the full appropriation for this year and the beginning funds for next year because of the difference in the calendar and fiscal years, so that that program might be pushed along as fast as possible.

Thank you very much, Senator Green.

Senator Green. Thank you.

Miss Eileen Egan, representing the American Council of Voluntary Agencies for Foreign Service.

# STATEMENT OF MISS EILEEN EGAN, THE AMERICAN COUNCIL OF VOLUNTARY AGENCIES; ACCOMPANIED BY BERNARD A. CON-FER, TREASURER, AND GILBERT BLACKFORD

Miss Egan. I am Eileen Egan, secretary of the American Council of Voluntary Agencies for Foreign Service, consisting of 40 agencies of the American people working in foreign fields.

I would like to introduce the treasurer of the American Council of

Voluntary Agencies, Mr. Bernard Confer, who will speak first.

Mr. CONFER. Mr. Chairman, for purposes of identification I would like to say that Miss Egan is with Catholic Relief Services of the National Catholic Welfare Conference.

I am executive secretary of Lutheran World Relief.

With us in this room is Mr. Gilbert Blackford, of Church World Service, the interdenominational Protestant agency.

Until about a half hour ago Mrs. Olive Clapper of CARE was here

and regrets that she had to leave.

I emphasize we are here as a delegation from the American Council of Voluntary Agencies.

The members of the council, the 40, are listed on the reverse of the

face sheet of the statement we have given you.

In the interests of time may I request that this statement be entered into the record and that we be allowed to speak briefly to the point?

Senator Green. Do that, please. (The document referred to is as follows:)

AMERICAN COUNCIL OF VOLUNTARY AGENCIES FOR FOREIGN SERVICE, INC.

To provide a means for consultation, coordination, and planning so that relief and reconstruction programs may be carried on in the most effective way

#### MEMBER AGENCIES

American Baptist Relief

American Bureau for Medical Aid to China, Inc.

American Federation of International Institutes, Inc. American Friends of Russian Freedom, Inc. American Friends Service Committee, Inc.

American Fund for Czechoslovak Refugees, Inc.

American Hellenic Progressive Educational Association—Refugee Relief

Committee

American Jewish Joint Distribution Committee, Inc.

American Middle East Relief, Inc.

American National Committee to Aid Homeless Armenians (ANCHA)

American ORT Federation, Inc.

American Relief for Poland, Inc.

Boys' Towns of Italy, Inc.

Brethren Service Commission

Catholic Relief Services, National Catholic Welfare Conference, Inc.

Church World Service, Inc., National Council of the Churches of Christ in the U. S. A.

Cooperative for American Remittances to Everywhere, Inc.

General Council of the Assemblies of God, Foreign Service Committee

Heifer Project, Inc.

International Rescue Committee, Inc.

International Social Service, Inc., American Branch

Iran Foundation, Inc.

Lutheran Refugee Service

Lutheran World Relief, Inc.

Mennonite Central Committee, Inc.

National Travelers Aid Association

Near East Foundation

Russian Children's Welfare Society, Inc.

Salvation Army

Selfhelp of Emigrés From Central Europe, Inc.

Tolstoy Foundation, Inc.

Unitarian Service Committee, Inc.

United Friends of the Needy and Displaced People of Yugoslavia, Inc.

United HIAS Service, Inc.

United Lithuanian Relief Fund of America. Inc.

United Seamen's Service, Inc.

United Ukrainian American Relief Committee, Inc.

World University Service

Young Women's Christian Association, Inc. (World Emergency Fund)

Two years ago the American Council prepared a joint agency report entitled "The Moral Challenge of American Abundance" pointing out the increased responsibilities which Americans have in a needy world because of the overwhelming stockpiles of food in the United States. The voluntary agencies, who so often express the conscience of the American people, have done their utmost to meet this challenge by adding to their ongoing overseas programs in an unprecedented What follows is an attempt to present the voluntary agency concern with surplus agricultural commodities as of today.

While I am talking to you, there are literally millions of refugees and needy people in the farthest corners of the free world who are receiving tangible evidence that the people of the United States are concerned for their welfare.

These include most of the nearly a million refugees from north Vietnam, members of the great refugee group (2 million strong) who throng the province of West Bengal near the Pakistan border, refugees who jampack such cities as West Berlin, Trieste, Karachi, or Hong Kong (the only part of China mainland still in the free world). They also include the landless poor in south Italy, land still in the free world). and the people of Korea who, having expanded all their physical and material resources in the defense of a common cause, are materially and spiritually fortified by our continuing compassionate concern for them.

Right now in 78 countries and areas of a crisis-ridden world, it is the carefully planned distribution of American surplus foods through American voluntary agencies that is proving that American people care in a personal way for the welfare of those who are helpless to meet the daily needs of themselves and their So many of the members of your committee have, in recent survey tours, seen with their own eyes the benefits of these ongoing people-to-people pro-

grams that there is little need for further elaboration.

#### THE MAN IN THE STREET

In the fiscal year of 1955, 412,523,967 pounds of American surplus commodities (including dairy products, shortening, and cotton-seed oil) were distributed over-seas through 17 American voluntary agencies—agencies representing the great religious groupings, as well as other voluntary groups of American citizens. In the fiscal year ending June 30, 1956, the joint agency shipments should total

more than 800 million pounds of surplus products.

The total voluntary program accomplished at one and the same time many

tremendous objectives:

1. It brought lifegiving foods to hungry people desperately in need of aid, helpless in the face of circumstances, and often the targets of the propaganda

machines of destructive ideologies.

2. The feeding program proves that Americans are concerned for the personal welfare of needy people throughout the world. While governmental aid programs, undoubtedly of the greatest long-term necessity, have little relatively impact on the "man in the street", immediate aid programs administered by American voluntary agency representatives, or under their supervision, have an impact on individuals that deeply implants the seeds of true friendship and peace.

Because this is a realistic presentation, we must point out that the "man in the street" quite often is exactly that. As a poverty-stricken refugee in Asia. for example, his only shelter is the street, or a lean-to that he constructs in the open square. In many cities of the world which are vital to us, literally hundreds of thousands nightly find their resting places next to a curbstone or building, or in a doorway.

3. The overall voluntary agency program has reduced substantially the overwhelming stockpiles of American surplus commodities—a critical threat to the economy of our country. In this aspect, the voluntary agencies can be seen as the natural and necessary link between the mountains of American excess foods and the needy of a world anguished by want and homelessness.

4. This program achieved its objectives in the fiscal years of 1955 and 1956 to the greatest extent possible with limited ocean-freight allocations from the United States Government. These allocations, totalling only \$20 million in the 2-year period, made possible the operations of programs which Government agencies could not duplicate by the expenditure of billions of dollars. The worldwide networks of voluntary agency distribution channels in which hundreds of thousands of volunteers give dedicated service in thousands of such institutions as orphanages, hospitals, and welfare centers, would represent an astronomic budgetary item. Even with such outlay of Government funds, the incalculable human values of the voluntary program could not be duplicated.

5. The very voluntary character and the nondiscriminatory basis of the American voluntary aid programs preclude the success of any attempts by anti-American propagandists to pin purely political motives on such people-to-people

aid.

## A REMARKABLE PARTNERSHIP

This is the type of program, we believe, that the Congress had in mind when it first appropriated funds for shipping voluntary agency supplies overseas. Limited aid programs, financed entirely from private sources were already operating when ocean-freight surplus availability made possible the expansion of programs in line with increased possibilities of meeting unmet needs.

The Congress of the United States, representing the people of America as their elected spokesmen in the Government, and the American voluntary agencies for foreign service, representing the people of the United States as their personal messengers of aid and goodwill overseas, have now for nearly 10 years cooperated in a remarkable partnership bringing tangible expression of concern

and solace to people in distress and need throughout the world.

This remarkable partnership began in 1947 with Public Law 84, a joint resolution providing for relief assistance to people of countries devastated by war. At that time, the Congress, in order to "further the efficient use of United States voluntary contributions for relief" abroad, provided ocean-freight assistance to American voluntary agencies in the form of reimbursement for the cost of shipping relief supplies to some countries. Provisions for similar reimbursement have been carried forward in succeeding foreign aid legislation.

Another expression of this partnership was given in the Agricultural Act of 1949 and succeeding farm legislation amending that act, when Congress made available to the voluntary agencies quantities of surplus commodities for distribution overseas. Through the provisions of this legislation, the assistance which the agencies have been able to bring to people in need abroad has been greatly

multiplied.

The American voluntary agencies consider it a privilege of high order to share in this partnership and are grateful indeed for the continued interest and cooperation which the Congress has shown over the years.

#### THE PRESENT PREDICAMENT

During the last program year, voluntary aid plans were curtailed because of lack of sufficient ocean freight allocations. Through the combined voluntary agency request was for at least \$17 million, only \$9,500,000 was allocated to them for shipment of surplus goods. Because carefully planned aid programs would be seriously jeopardized, a further \$3 million was allotted to finish out the year.

Part of the reason for the insufficiency of funds was the Department of Agriculture decision in December 1955 to release to the agencies new products—wheat, corn, rice, and beans, products which would nutritionally improve the

ongoing feeding programs in many crucial areas.

Reports from the field to the agencies would indicate that close to \$50 million would be needed for ocean freight to cover the desired programs of surplus commodity distribution made possible by more diversified foods and the strengthening of local distribution channels.

In view of many factors, however, this total has been adjusted to a practical minimum of from \$25 to \$30 million for ocean freight charges for all agency

surplus commodity shipments during the coming fiscal year beginning July 1, 1956.

In addition, agency representatives overseas have indicated that more than \$3 million would be needed to cover ocean freight costs on "regular" agency shipments (i. e., food, medicaments, hospital supplies, rehabilitation items and clothing, either purchased with agency funds or contributed by agency constituents).

The estimated ocean freight on these regular shipments is an absolutely minimal figure and cannot be cut without jeopardy to long-established programs

of basic service.

(It might be interesting to note that during the calendar year 1955, for example, American voluntary agencies shipped purchased and contributed supplies valued at \$39,051,806 to 81 different countries and areas for an ocean freight expenditure of about \$2 million; in addition the agencies transferred funds to these countries in the amount of \$67,741,011 in the same period.)

The larger request of \$50 million for shipments of surplus commodities would represent less than 50 days' storage charges at the current rate on the surplus stockpiled in the United States, while the reduced figure, which we are asking for today, is only what our Government expends on storage for the period of 1 month.

A measure of the importance and value of these programs is the fact that foreign governments, despite their internal fiscal problems, absorb the considerable costs involved in countrywide distributions.

## THE CONTINUANCE AND FRUITION OF AN INVALUABLE PARTNERSHIP

In proposals made to you last week for mutual security legislation, only \$12 million has been requested to cover all voluntary agency surplus shipments during the next fiscal year, and only \$1,400,000 to cover the ocean freight costs on relief surplies purchased or collected by people throughout the United States for distribution by the agencies.

Such a drastic curtailment in vitally necessary programs overseas, while hungry men, women, and children are aware that surplus foods continue to mount up in the United States, would be a disastrous denial of our concern for

our fellow men who are in need.

We as representatives of the voluntary agencies do not understand why these curtailments were made. We cannot believe that officials of the Government do not yet realize the immeasurable value of the voluntary people-to-people aid programs, or are not sufficiently convinced of how necessary an adjunct these programs are to the overall government-to-government programs.

The evidence given before the committee by ICA itself in testimony last week bears out the importance and significant value of these voluntary programs. In his testimony before the committee on April 19, 1956, Mr. William H. McCahon,

Chief of the Voluntary Foreign Aid Staff of ICA, stated, and I quote:

"In carrying out the responsibilities of this position, I have become closely acquainted with the personnel of the American voluntary agencies and have had an opportunity to observe and obtain a personal knowledge of their varied activities abroad.

"I am convinced that these groups of private citizens play an important role

in international relations which today is of great value to our country.

"Acting on behalf of the American people they, as private citizens, are extending a helping hand to friendly peoples around the world, who through circumstances beyond their control are desperately in need of assistance."

Particularly in view of this statement we are at a loss to understand the reductions proposed, and can attribute them only to figures arrived at long before the greater relief potential due to the now-available surplus grains was reached.

In an effort to discover the reason for the divergence between the figures which the voluntary agencies presented to the Voluntary Foreign Aid Division, ICA, in February this year (\$50 million for ocean freight on surplus commodities and \$3 million for "regular" shipments) and those which it was learned would be presented by that office to the Congress, we addressed a letter to Mr. John B. Hollister Director, ICA, on April 16. 1956. in which we said in part:

"\* \* The agencies' programs are not static ones; on the contrary, in this

The agencies' programs are not static ones; on the contrary, in this time of great need in so many areas of the world and great prosperity in our own country, they are quite properly, we believe, expanding programs. A peculiar genius of the voluntary agencies' programs is their great flexibility.

"\* \* \* We trust that, insofar as your position permits, you will find it possible to support the voluntary agencies in their desire to receive ocean freight funds in amounts adequate for their programs. \* \* \*"

On April 27, 1956, Mr. Hollister replied to our letter as follows: "I refer to your letter of April 18, in which you give the views of the Council agencies on the question of ocean freight requirements for fiscal year 1957.

"I appreciate very much your courtesy in sharing these views with us and the friendly spirit of cooperation which your expressed about our relationships

with the voluntary agencies.

"I have noted that it is the intention of your groups to make their views known to the appropriate committees of the Congress. I understand that you have been fully informed through Mr. McCahon's office of the presentation which is being made by the executive branch. We shall keep in mind the views of the voluntary agencies as the presentation progresses. It will, of course, be up to Congress to decide the amount of funds to be appropriated for this purpose."

It was the Congress which, recognizing the great and intrinsic values in peopleto-people assistance, made possible the partnership with voluntary agencies that has already accomplished such incredible amounts of good in those areas of the

world where freedom is most precariously preserved.

It is to the Congress that the combined voluntary agencies, representing the will and dedication of many scores of millions of American citizens, must resort now to insure the continuance and fruition of this partnership.

#### REIMBURSEMENT FOR OCEAN FREIGHT CHARGES

Mr. Confer. At the outset let me say that we appreciate the way that the Congress of the United States has for the last 8 years provided moneys for the reimbursement of ocean freight on relief shipments that go abroad for distribution among especially needy people.

This subsidy to the work of the agencies has enabled these voluntary organizations to sharply increase the amount of aid reaching needy

We came today to talk about the present bill for which the administration has requested for the movement of supplies from our own resources \$1.4 million, and for the movement of surplus commodities donated by the Government \$12 million.

We understand that the Director of ICA has transmitted a request to you that will increase the administration request to \$18 million

for moving surplus commodities.

The agencies that are members of the American Council have surveyed their own situation and find that a reasonable recommendation from us would be \$2½ million for movement of supplies from our own resources, and \$25 million for movement of Government-donated supplies.

Senator Green. It keeps going up?

Mr. Confer. We hope that that is in line with the wishes of the Congress who, over the years, have tended to stimulate this voluntary person-to-person approach to overseas need.

During the fiscal year 1955 the voluntary agencies were able to

distribute 400 million pounds of surplus commodities.

During this current year that will be approximately doubled. As the agencies gradually expand their programs, we anticipate that during this coming fiscal year, about 1½ billion pounds can effectively be distributed.

The needs overseas are great and we are restricted by many factors.

Senator Green. Does that figure include the packaging?

Mr. Confer. No. sir. That does not include the packaging. These are pounds, the net pounds, and there are many expenses like some repackaging, some distribution costs, insurance, and so on that the agencies themselves need to bear.

Senator Green. A lot of the packages weigh as much as the contents?

Mr. Confer. I hope not.

Miss Eagen, who is with me, has spent 4 months recently overseas and I would like it if you would please hear her.

## PROGRAM OF AMERICAN VOLUNTARY AGENCIES

Miss Egan. In a recent 4 months' trip around the world to see how our programs were going and also how the programs of the other agencies of the American Council were moving forward. I made many, many observations, the main one being that the voluntary agencies of the American people formed a very necessary link between the mountains of surplus foods in America which everybody knows about, and the dispossessed of the world.

I would like to give two examples of these groups of dispossessed, and Mr. Chairman, one of these examples will show why our freight

needs are going up and why our programs are going up.

In Vietnam, we have about 850,000 refugees from the north, most

of them voluntary exiles because they are anti-Communists.

This was the swiftest movement of people in history, and these people now have made for themselves temporary villages hacked out of the wilderness.

How do they live in the meantime in this truncated country cut in

half at the 17th parallel?

One of the main reasons that they have lived and that there have not been deaths from starvation has been the program of the American voluntary agencies in feeding them from American surplus stocks; special stocks of cottonseed oil, of powdered milk, of flour were made available.

Now are these people getting enough to eat? Well, I went up to some 50 villages of these new refugees and found that some of them were barely keeping alive together.

Some of them were living on one meal a day, but nobody complained because that meal was supplied mostly by us and they were eating it

in freedom.

Senator Green. Last fall I visited some of the camps there, to

confirm your statement.

Miss Egan. Thank you, Mr. Chairman. You know what the conditions are. It may be, Mr. Chairman, that you know also the work of the agencies in Hong Kong. Here you have again close to 1 million refugees, really the elite in a way of China, former journalists, teachers and so on, the ones most suspect by the regime and the ones first to see the dangers of the new regimes.

They are living in a tight little area. No part of the world will accept them, and the mystery of Hong Kong is how they remain alive. Again American voluntary agencies have a big council in Hong Kong and are helping feed these people. We are not doing an adequate job yet because until now rice and grains were not available. Last December these items were made available and we are already shipping

to such places as Hong Kong.

Now there is a question as to whether the people themselves are doing enough for their own welfare. I can testify to that. In Hong

Kong these people living in shacks work from dawn to dark at all kinds of tasks, and at the end of the day they will sometimes say with a smile, "Today I made my rice," and they do not complain if they have made their rice.

It is a privilege to us as representatives of the American people to sustain the morale and the physical strength of these very brave people. The freight that we are asking for today seems perhaps like a lot of money. Actually it is a very small amount compared with what the agencies put into the program themselves.

And another thought which we would like to leave with you is this: that the networks of voluntary agencies, all our sister agencies, our own, could not be duplicated by the Government for the expendi-

ture of an astronomical sum of money.

These centers, welfare centers, dispensaries, hospitals, committees do exist and they are functioning without any expense to our Government.

They are doing the job, and if they did not exist, if our Government had to reset up this whole network, it would cost a sum that I would not even try to name.

Thank you, Mr. Chairman.

Mr. Confer. In summary, Mr. Chairman, we request this increase, believing that it is the will of the American people that we reach as many needy people as possible with these American resources.

We believe that these voluntary agencies' programs give a concrete demonstration of the concern of the American people that the man in the street understands, and we believe that this is one good way of responding to the moral challenge of our American situation that is inherent in our having many dollars worth of supplies of food in a world where so many people go hungry.

We think, too, that these programs make a very special contribution toward fostering international understanding and world peace.

Thank you for your courtesy.

Senator GREEN. Thank you for your attendance this morning. The last witness is Mr. David Whatley.

# STATEMENT OF DAVID WHATLEY, WASHINGTON, D. C.

Mr. WHATLEY. Mr. Chairman, I appreciate your time in hearing me as a private citizen.

# REIMBURSEMENT FOR OCEAN FREIGHT CHARGES

I am an obscure attorney and real estate broker but have spent considerable time and study in working in behalf of the amendment on

ocean freight just discussed.

I wish to make two brief points on that. The amendment is extremely important, far beyond what appears on the surface. The amendment will probably be adopted in the pending agriculture bill because it was previously adopted in substance by the Senate unanimously and unanimously agreed to in the conference on the previous agriculture bill.

If it should fail of enactment, however, I think it is extremely important that it be added to this bill, rather than a simple amendment which would increase the sums available from the \$12 million budgeted therefor to either \$30 million or \$50 million.

# PROVISIONS OF PUBLIC LAW 480

I say that because the needs of the voluntary agencies are almost indeterminate. The amounts of grains made available to these agencies so generously by Secretary Benson last December, as he announced at the time, are unlimited.

The amounts of grain that will eventually spoil are undeterminable. The amounts that will be distributed under title II of Public Law 480 are limited because of the language which restricts it primarily to

famine and other urgent relief requirements.

Title I operations also have their limitations, but incidentally may I remark that title I will undoubtedly have to be increased in authorization from the present \$1,500 million during this session of Congress to approximately \$2,500 million. That request has not yet been made, but I suggest it at this point, because it might be propitious to add that additional authorization as a further amendment to the pending agricultural bill or to this bill.

The additional technical amendment, which I will mention only

briefly, I recommend to facilitate the operations of title I.

In the present law, under the first proviso of section 104—— Senator Green. Have you a written copy of this amendment?

Mr. Whatley. Yes, sir. I will submit it. Under this provise adopted in the original language of the act, any grant of local currencies used for economic development requires reimbursement from foreign aid funds for the dollar equivalent of the local currencies thus used.

Economic development was one of the primary purposes of title I. However, it has not been used for grants at all. Instead the Department of Agriculture has utilized in lieu thereof the alternative, subsection (g), which permits loans to be made of local currencies for

the same purpose.

I suggest, Mr. Chairman, that there are many cases where a foreign government would be reluctant to increase their external indebtedness by making an additional loan for the use of this foreign currency from the sale of these commodities for purposes of economic development. Many of the countries have come to their limit of external indebtedness already to the World Bank and the Export-Import Bank.

## SUGGESTED AMENDMENT

If this primary purpose is to be fully achieved, I suggest that the proviso relating to subsection (e) be eliminated so as to permit its operation for grants in the same way that the local currency is now utilized under the act without reimbursement under subsection (c).

I will give you a brief example of that. In operations of subsection (c), because it permits grants without reimbursement for use in military purposes, Yugoslavia has built a considerable network of roads, which is deemed to be a military purpose because they can be used in time of war. I suggest that economic development should be put on that same basis.

Senator Green. Have you made these suggestions elsewhere?

Mr. WHATLEY. Yes; to the executive branch, ICA, Agriculture, and the Francis committee.

However, Mr. Francis found, after his committee considered the amendment, that since the loan provisions are in the law, the requirement for reimbursement did not constitute an actual roadblock; and apparently they have been unwilling to ask for its elimination. I think however, there would be no sentiment in Congress against eliminating it, and that its elimination would facilitate a primary purpose of title I.

Senator Green. Is it your suggestion that these provisions be in-

corporated in the legislation we are considering here?

Mr. WHATLEY. Yes, sir; or in the farm bill or in any bill that would increase the authorization under title I which would be necessary for the next fiscal year.

(The amendment proposed by Mr. Whatley was subsequently fur-

nished to the committee for the record, as follows:)

Insert at proper place the following new section:
"Section —. That the Agricultural Trade Development and Assistance Act of 1954, as amended, is amended by striking out from the first proviso in section 104 the following: 'for grants under subsections (d) and (e) and'."

May I make a brief point in regard to the cost of ocean freight. speaking on this amendment on March 14 when it was presented by Senator Humphrey, he stated the cost of ocean freight would be less

than the storage costs on these commodities for 1 year.

That was true based on the only statistics that we were able to obtain at the time. It had been true for the commodities shipped heretofore which were primarily dairy products. But because we had no statistics on the shipment of grain and their storage costs, Senator Humphrey did not present those.

However, to make the record clear, the storage costs on grain are not in the same ratio to ocean freight because even though dairy products cost as much as 10 times as much to store per weight, the ratio to value is smaller for grains. The ocean freight costs on wheat would be exceeded by storage costs in 3 or 4 years.

I will submit tables of statistics on those costs if I may.

(The tables referred to had not been received prior to printing of these hearings.)

# MAKING PERCENTAGE OF FEDERAL BUDGET AVAILABLE FOR AID

One more thought, Mr. Chairman, which is an original idea I believe and has not been presented heretofore. I believe it is worthy of consideration. As Ambassador Lodge and other experts on the subject have called for increased appropriations under the United Nations, I suggest that your committee recommend either in its report or in a separate amendment to the bill that the United States offer, at the next session of the General Assembly of the United Nations, to appropriate one-half of 1 percent of the total budget of the Federal Government that year for any purposes of economic development, technical assistance, or specialized agencies to which the General Assembly would wish to distribute these funds, provided that a certain number of other countries would make the same contribution. A half of 1 percent would be over \$300 million. It would be an insignificant addition to our total budget costs. Yet it would provide the FAO, WHO, UNICEF, and the Special Fund for Economic Development enormous resources which would be a tremendous contribution to world

Senator Green. I do not want to express an opinion on that now without giving consideration to it but it would be very difficult to com-

pute that for all countries on the same basis.

Mr. WHATLEY. I think that formula would be less difficult to compute than one based on national income, total national product, or any of the other devices that have been suggested.

#### MILITARY AID STUDY

Just one other point, Mr. Chairman. I hope if you find it necessary to reduce the total amount of the authorization, that the reduction be made in the military items, pending a further review in the next Congress to be undertaken by a Joint House-Senate Commission in the nature of the Hoover Commission, composed of both leaders of both Houses and also top experts in the field of military policy, retired generals, civilians who have studied the problem of air power and so forth, to take an overall look, a new reappraisal in the light of weapons of mass destruction, at our whole military requirements and the necessity for increased appropriations for military assistance.

I think that such a study has been long overdue. I think that only under such a study can we determine a rational defense policy under which these military assistance programs are only a small proportion, perhaps too small, perhaps an excessive amount. No one seems to know. The policy is piecemeal, and I think the Congress should know and that only such an organization with adequate funds and research staff and 3 or 4 months' study could evaluate the necessities

of the hour in that respect.

I am very grateful for your time, sir. Senator Green. Thank you, very much. That concludes this morning's session.

(Whereupon, at 1:10 p.m., the committee was recessed to reconvene

at 2:30 p.m. of the same day.)

# **MUTUAL SECURITY ACT OF 1956**

# FRIDAY, MAY 11, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to recess, at 2:50 p. m., in the committee room, United States Capitol Building, Senator Theodore

Francis Green presiding.

Present: Senators Green, Smith of New Jersey, and Knowland. Also present: Philander P. Claxton, Jr., Department of State;

Also present: Philander P. Claxton, Jr., Department of State; Virginia C. Westfall, Department of State; James P. Lundy, International Cooperation Administration; Charles T. Lloyd, International Cooperation Administration; George L. Warren, Adviser on Refugees, Department of State; Clement Sobotka, Executive Officer, Escapee Program Division, Department of State; George P. Hoffman, Department of State.

Senator Green. The hearing this morning is on the various United Nations programs. Mr. Wilcox, the Assistant Secretary of State for International Organization, had hoped to testify about them but he is out of the country. He has written a letter, however, to the chairman,

which will be placed in the record at this point.

DEPARTMENT OF STATE, Washington, D. C., May 7, 1956.

Hon. WALTER F. GEORGE,

Chairman, Senate Foreign Relations Committee.

DEAR SENATOR: I regret very much that it is necessary for me to be out of the country when the Foreign Relations Committee holds its hearings on the mutual assistance bill. I had planned to appear, but since your schedule has been changed I will not be able to do so.

The part of the legislation that falls under my jurisdiction in the State Department relates to the voluntary programs of the United Nations, such as the UN expanded technical assistance program, the Children's Fund, the Palestine Relief and Works Agency, and the United Nations refugee fund. I would like to take this opportunity to reiterate my support for the program as a whole and for these programs in particular.

As you know, I have long felt that our contributions to the voluntary programs of the United Nations bring us many valuable returns in terms of good will, cooperation and other more tangible benefits. The amount involved in relatively

small; the dividends are great.

The changing tactics of the Soviet Union are inevitably going to bring new problems and new challenges for us. In the years that lie ahead our position in the United Nations will be even more important than it has been up to the present. It is, I think, urgent that we as a nation continue to demonstrate our interest in these programs which are designed to cope with problems that are of concern to all of the members.

I shall not burden you with the arguments in favor of these contributions. You are familiar with them and they are set forth in some detail in the statement which will be presented on behalf of the Bureau of International Organization

Affairs for the record.

In the past years the committee has given its strong support to these United Nations voluntary programs. I hope very much it will continue to do so.

With all best wishes to you personally, I am

Cordially yours,

Francis O. Wilcox,
Assistant Secretary.

Senator Green. Mr. Christopher H. Phillips will be our first witness. Mr. Phillips, you may proceed.

STATEMENT OF CHRISTOPHER H. PHILLIPS, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS; ACCOMPANIED BY DR. MARTHA M. ELIOT, CHIEF, CHILDREN'S BUREAU, SOCIAL SECURITY ADMINISTRATION

Mr. Phillips. Mr. Chairman, I am appearing in place of Mr. Wilcox, who, I regret to say, is unable to be here. I am here as his deputy, and I shall try to do the difficult task of appearing for him. I know Mr. Wilcox is well known to the members of this committee, and he has asked me to take over in his absence.

We propose this afternoon to discuss the three so-called voluntary United Nations programs. We have present in the room several expert witnesses if the committee desires to ask any detailed questions about any of the programs. If it is agreeable with the chairman and the committee, I would like to make a brief statement about the importance we attach to these three programs, and then say just a few words about each program.

Senator Green. We would like to hear you, very much.

#### UNITED NATIONS PROGRAMS

Mr. Phillips. Mr. Chairman, included in the mutual security authorization, the request for which is before you today, are funds for three United Nations voluntary programs. There is the United Nations expanded program of technical assistance, for which \$15.5 million is being requested; the United Nations Children's Fund, for which \$10 million is being requested; and the United Nations Refugee Fund, for which we are asking \$2,300,000 for an 18-month period.

Senator Green. Are they not all for the same period?

## GEARING PROGRAMS TO U. N. CALENDAR YEAR OPERATIONS

Mr. Phillips. Each of these programs, except for the United Nations Refugee Fund, is for a fiscal year, for a 12-month period. Only the third is for 18 months.

Senator Green. What is the reason for the other one being for a

Mr. Phillips. The reason is, Senator, all of these programs work on the calendar year basis. As a result of the 18-months appropriation last year for United Nations Technical Assistance and Children's Fund, we have made them current, so it is no longer necessary to ask for an 18-months appropriation.

The last one I have mentioned, the United Nations Refugee Fund, so far has not been put on a current basis so we are not yet in a position to make a pledge beyond the current calendar year of any given amount.

Senator Green. I am not holding you responsible when I ask these

questions. But why were they not all begun at the same time?

Mr. Phillips. The reason is, Mr. Chairman, the other programs have been in operation for the last 4 or 5 years, and the United Nations Refugee Fund is a new program which has just gotten under way. This is really the first opportunity we have had to request putting it on a current basis.

Senator Green. Will the refugee program need funds every year

Why could it not be made available for a year?

Mr. Phillips. If the authorization requested now is granted, we will have sufficient funds to pay the United States contribution to the program for calendar year 1956, and to make a pledge for the first 6 months of calendar year 1957. Thereafter, we would only ask for an appropriation which corresponds with our own fiscal year. would then bring us on a current basis.

Senator Green. Very well, but I do not see much sense in it. Senator Smith. I am not quite clear yet. Technical assistance, you

say, is \$15.5 million. Is that through fiscal 1957?

Mr. Phillips. That will cover, Senator, a United States contribution, for calendar year 1957, for the full calendar year. But it will be in our fiscal year 1957 budget, and this will enable us, as you will recall, to make a pledge at the pledging conference next November.

Senator Green. Who fixes this period?

Mr. Phillips. The United Nations fiscal year corresponds to a calendar year, from January 1 to December 31.

Senator Green. Is it all for 1 year?

Mr. Phillips. That is correct.

Senator Green. Who fixed the UNREF request for a year and a

Mr. Phillips. This was fixed to enable us in November of this year to make a pledge for the first 6 months of calendar year 1957. If we were to ask only for a 12-months period, we would be precluded from making any pledge at the November pledging conference. We would have sufficient money only for the calendar year 1956.

Senator Knowland. What you are trying to do is get in conformity

with our fiscal year, which begins July 1?

Mr. Phillips. Yes, sir, and to enable us to make a pledge in advance

of the calendar year.

Senator Green. Thereafter, would all requests cover a 1-year period?

Mr. Phillips. Thereafter, they will all be for a 1-year period.

Senator Green. Thank you.

# IMPORTANCE OF U. N. PROGRAMS

Mr. Phillips. Before I say a few words about each of the programs individually, I would like to stress briefly the importance that the executive branch attaches to these internationally operated programs, and the United States contribution to them.

We have been helping friendly nations through these programs since their inception. We regard this aid not as separate and apart from our

bilateral aid, but as an essential complement to it.

There are special advantages to be gained by furnishing assistance through bilateral and multilateral channels, and both types of programs are needed.

It should be noted that there is a growing preference——

Senator SMITH. Mr. Phillips, are you reading from this statement? Mr. Phillips. No, sir. This is a brief verbal statement which I did not put in written form, and you do not have it in front of you.

Senator Smith. Do you want these statements in the record?

Mr. Phillips. I would like to have these statements, copies of which

you have, placed in the record.

Senator Knowland. I might ask, Do you include either in your oral statement or in your written statement, information for the committee as to what percentage of the total budget this represents?

Mr. Phillips. Yes, we do.

## GROWING PREFERENCE FOR MULTILATERAL APPROACH

It should be noted that there is a growing preference among a large number of the newly developing countries to receive assistance from the United Nations and other international organizations, in contrast to

assistance from individual foreign countries.

I think this trend is easily understandable. Since all countries, large and small alike, are on an equal footing in the United Nations, the smaller nations experience a sense of dignity, a sense of prestige in United Nations undertakings, which is of great importance in their emergence as sovereign and independent states.

Consequently, these nations have developed a special feeling of confidence in the United Nations as a forum for discussing and conducting world affairs, both among themselves and with the larger, more power-

ful nations.

The assisted countries have a deep sense of their own participation in the United Nations voluntary programs, since they also contribute to these activities as well as receive benefits from them.

The distinction between the donor and recipient governments is

thereby minimized.

Newly developed countries properly do not feel they are merely on the receiving end of charity from the more fortunate countries. Now, that is a healthy sign.

The result is a cooperative effort which tends to promote good feeling and understanding and which contributes greatly to the gen-

eral cause of world peace and unity.

If anything, these multilateral activities are even more important today than when they began. I do not subscribe to the belief held by some that the United States does not receive credit for its contribution to multilateral activities. On the contrary, our vigorous support of these popular multilateral programs has been well received by all free countries, and has gained for this country good will, which I firmly believe could not have been gained in any other way, at least to the same extent.

Senator Smith. Are you talking now about all these funds, or just technical assistance?

Mr. Phillips. The three voluntary programs, technical assistance, children's fund, and the United Nations refugee fund.

These, then, form an effective answer to Communist propaganda charges that we are seeking to dominate countries in which we have

bilateral programs.

It is further evidence of our genuine interest in helping to promote the economic development of newly developing countries. It strengthens the United Nations and United States leadership in the United Nations, by convincingly demonstrating our willingness to cooperate with and work through the United Nations.

In this connection, Mr. Chairman, I was interested in references to the United Nations technical assistance program in a report of the subcommittee of this committee, and also in a report which I believe you submitted in connection with a trip to the Far East and southeast Asia, on this same subject. It was interesting, and it certainly refortified our own thinking about the value of the United Nations technical assistance program.

#### RECENT DECISION OF SOVIET UNION TO TAKE PART IN U. N. PROGRAMS

Another good indication of the success of our support of the multilateral programs is the fact that Russia and its satellites, so long on the sidelines, have now decided to participate.

It was obvious, even to the Soviet Union, that she was losing ground to the United States and the other free world countries as a result of

the aloofness she exhibited theretofore.

Belatedly, the Soviet Union has decided to recoup some of those losses by offering contributions to the United Nations technical assist-

ance program and the children's fund.

It is of the utmost importance that we meet this challenge and maintain our long-standing position of leadership in and understanding of these programs which have proved by experience to be effective, and which are so highly regarded and widely accepted by all countries.

# DETAILED STATEMENTS ON U. N. PROGRAMS

Before discussing very briefly each of these 3 programs, Mr. Chairman, I would like to submit for the record 3 rather complete statements, 1 about each program, copies of which you have before you.

There is a statement on the United Nations expanded program of technical assistance, a statement on the United Nations children's fund, and a statement on the United Nations refugee fund.

With your permission, Mr. Chairman, I would like to offer these

for the record.

Senator Green. Are you going to comment on each of them? Mr. Phillips. Yes, very briefly.

(The statements referred to are as follows:)

# United Nations Expanded Program of Technical Assistance

Authorization of the amount of \$15.5 million from fiscal year 1957 funds is requested as the United States contribution to the United Nations Expanded Program of Technical Assistance for calendar year 1957.

The United States has given strong support and leadership to multilateral technical assistance activities since their beginning in 1950. In terms of cost and number of experts, the multilateral program is much smaller than the bilateral program; however, this is no measure of the significance of the United Nations technical assistance activities.

In the context of our relations with other Governments, the work of United Nations technical assistance has been increasing steadily in significance. It is furnishing a striking demonstration of the potential effectiveness of multilateral action in the economic and social fields. Experts from some 60 nations are working all over the world to bring knowledge of better methods of doing things to people who are eager to learn. These experts are employed by the international organizations of which the newly developing countries are members. This is rather a unique program of organized self-help, certainly the first of its kind to be established on an international organization basis.

As the committee is aware, the program has faced many difficulties—financial uncertainties, organization problems, rivalries among agencies, difficulties in defining adequately the specific needs of newly developing countries, difficulties in Inevitably there are numerous organizational and adminissecuring experts. trative problems in the operation by eight independent international organizations of a technical assistance program which must be based on a coordinated

effort to meet individual country needs.

Many of the problems have been solved; a few will continue to be troublesome in varying degrees. In spite of these problems, however, concrete results are being achieved. The task is inherently a long-term one. Examples of specific project achievements are contained in a separate statement which is available for the use of the committee.

Our continued support of the United Nations program is important for several

reasons:

1. Technical assistance to newly developing areas is in our national interest. It was established by the 81st Congress as a major instrument of United States foreign policy in June 1950, in the Act for International Development. reaffirmed by the 83d Congress in the Mutual Security Act of 1954. These acts authorized United States contributions to technical assistance programs carried out by the United Nations and the Organization of American States as one means of carrying out the policy established in the act "\* \* \* to aid the efforts of the peoples of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills \* \* \*." Both the bilateral and multilateral programs have the same objectives, and although they are different means, the ultimate goal is the same.

2. Our role of leadership in the United Nations is strengthened by our continued strong support of the United Nations technical-assistance program. The program was undertaken at United States initiative and the United States has exerted a strong influence on the program since its inception. Our willingness to make substantial financial contributions has been interpreted by other countries of the free world as evidence of our good faith in desiring to promote the economic

development and well-being of underdeveloped countries.

3. The U. S. S. R. after ridiculing the program for several years as an instrument of "United States imperialism," apparently decided in 1953 that it was losing a propaganda advantage because it did not support the program. It therefore offered R.4 million, equivalent to \$1 million, to the United Nations program. but attached conditions which made its pledge unacceptable. These conditions were removed, and the first Soviet contribution was accepted in March 1954. The Soviets have since contributed a similar amount to the program for 1954 and 1955 and have pledged the same amount for 1956. Their satellites are likewise now contributing. A total of approximately \$5 million has been contributed or pledged by the Soviet Union and its satellites from 1953-56. The international organizations were not able to utilize any of these contributions until 1955, when approximately \$300,000 was obligated. Projects have been approved which will utilize the balance of the Soviet and satellite contributions. The bulk of these contributions is being used for supplies and equipment. In the light of Soviet participation, it is even more important than ever that the United States should continue to support the program.

4. Multilateral programs are less costly to the United States because other

governments share a part of the cost.

5. The multilateral technical assistance program contributes to tying together and strengthening nations of the world through concrete, constructive, and fully cooperative activities.

As I have previously indicated, multilateral technical assistance in some fields is sometimes more acceptable politically to underdeveloped countries than bi-

lateral assistance.

As of January 1, there were 1,360 experts at work in the field. Of these, 172, or approximately 13 percent, were Americans. We are earnestly seeking to encourage the employment of a greater number of Americans in the multilateral technical assistance program. It should be noted, however, that the high level of salaries and employment in the United States, plus the needs of the bilateral program for expert technicians, make this task difficult. In addition, international organizations are generally unable to offer long-term security to technical assistance experts, a condition which makes it even more difficult to attract Americans. One of the strengths of the program is, of course, the ability to recruit skilled experts from other countries, frequently in fields in which the United States may have a shortage.

The United Nations technical assistance program operates on a calendar year basis. Each October the United Nations holds a pledging conference at which governments are asked to announce their pledges for the following calendar year. The objective of the meeting is to determine how much money will be available for the full calendar year which follows in order that operations may be planned on a solid financial basis. This is an essential, businesslike procedure since field

projects can neither be started nor stopped economically on short notice.

The Congress has stipulated that United States pledges should be made only on the basis of funds which have been appropriated. In order for a United States pledge to be made in October 1956 for calendar year 1957, an authorization and appropriation of \$15.5 million for fiscal year 1957 is therefore requested. The amount of \$24 million was appropriated for fiscal year 1956 as the United States contribution for the period of July 1, 1955, to December 31, 1956. Of this amount \$8.5 million was pledged to the program for the last half of calendar year 1955 and \$15.5 million has been pledged for calendar year 1956. The United States pledge for calendar year 1956 was made subject to the provision that the United States contribution would not exceed 50 percent of contributions from all governments. Total pledges from other governments for calendar year 1956 are estimated at approximately \$14.5 million, calling for a United States contribution of the same amount. It is proposed that the United States contribution for calendar year 1957 should again be made subject to the limitation that it should not exceed 50 percent of total contributions.

The program is supported by voluntary contributions and governments contribute in accordance with their interest and ability to participate. Since the objective of the program is to assist countries which are economically underdeveloped and are therefore unable to pay the full cost of the assistance they need, it was necessary for the so-called developed countries to bear the major share of the internationally financed portion of the cost when it was first established in 1950. This is still true. However the financial situation of other developed countries has improved sufficiently in recent years so that the United States has been able to reduce the level of its contributions in relation to those of other contributing governments from 60 to 50 percent. In addition to contributions to the central fund, governments receiving technical assistance make substantial contributions to the local costs of projects. These are estimated at about \$60 million for 1955 or approximately twice the amount financed internationally. When these contributions are taken into account, the United States percentage of the total cost of the program for 1955 was approximately 17 percent.

## COORDINATION

The United Nations and United States technical assistance programs are well coordinated both at headquarters and in the field.

Field coordination continues to be the mainstay of the coordination process: (a) It is in the field that the recipient government's responsibility for coordination can be made effective; (b) in the field local knowledge is brought to bear on coordination problems; (c) in the field the coordination process can

take place at early planning stages.

There is close collaboration between the recipient country, United Nations mission and the United States operations mission in each country both at the planning and operating stages of technical assistance projects. This coordination has resulted in a good understanding of mutual problems resulting not only in avoidance of duplication but also in planning for effective use of all resources. Coordination arrangements are flexible and adapted to local conditions. Typical schemes involve a formal or informal committee structure consisting of representatives of the two programs and frequently including representatives of the recipient governments; common staff meetings held from

time to time; and continuous interchange of information through exchange of

papers and through personal relationships.

In the countries in which the United Nations is furnishing the largest amount of aid, resident representatives have been appointed as coordinating officers, to insure contact with both the host government and the United States mission. Resident representatives do not have line authority over the technical activity being carried out by the various United Nations agencies; but their responsibilities for coordination and overall planning have improved relationships in countries where they have been designated. The small size of the United Nations program precludes the designation of resident representatives in all of the countries receiving technical assistance.

Continued adequate support for this cooperative international enterprise is an important part of United States foreign policy. Authorization and appropriation of the amount requested, \$15.5 million, as the United States contribution for the calendar year 1957, will make possible the continuation of the United Nations technical assistance program at a level which will permit a more effective meeting of the most pressing technical assistance needs of

underdeveloped countries.

#### United Nations Children's Fund

This statement is submitted in support of the request of \$10 million for a con-

tribution to the calendar year 1957 program of the fund.

This year marks the 10th anniversary of the United Nations Children's Fund which is known throughout the world by the familiar symbols UNICEF. Not only has UNICEF made a valuable contribution toward the improvement of health and welfare services of children during this 10-year period, but it has been one of the most effective means of bringing about international cooperation and understanding among freedom-loving peoples everywhere. The tangible benefits which this humanitarian program has brought to millions of needy children and families have demonstrated that many of the more fortunate peoples of the world, often in far distant countries, are interested in helping the less fortunate improve their conditions.

Öriginally established as an emergency operation to help meet the terrible conditions of hunger and want among children in Europe following World War II, UNICEF has devoted practically its entire resources in recent years to assisting the less-advanced countries in Asia, Africa and Latin America in the development of permanent child health and welfare services and in the control and eradication

of debilitating diseases.

UNICEF is strictly a voluntary program. No government is obligated to contribute to it. Yet, despite the fact that UNICEF dropped its emergency character several years ago, support for the program has grown steadily both in the number of nations contributing and in the amounts pledged. In 1951, for example, 35 countries contributed \$10,400,000. For 1955, 71 countries pledged approximately \$15½ million. This is eloquent testimony to the soundness of its conception and

the success of its operation.

The United States can be proud of the leading role that it played in the establishment of UNICEF and of the generous assistance it has given to the fund since its inception. From 1946 through 1955 this Government contributed a total of \$114,531,000. In addition, in accordance with last year's authorization and appropriation for an 18-month period, the United States has pledged another \$9,700,000 for 1956. Other governments, which have increased their contributions to the program by 122 percent between 1952 and 1955, are to be commended, too. As a result, the United States has been able to reduce the percentage of its contribution from a maximum of 72 percent in 1952 and prior years to 57.5 percent in 1956 while at the same time total funds available to the program have increased, This is a healthy situation, for it indicates that the program is truly a multilateral one enjoying wide support. An additional reduction in the United States percentage to 55 percent is proposed for 1957. Again it is anticipated that this reduction will not result in any curtailment of the UNICEF program.

Of even more importance than their contributions to the central account are the significant amounts which the governments receiving aid are committing to projects in local currencies and in such other form as local personnel, services, transportation and locally available supplies, equipment and facilities. Of the total funds that go into UNICEF-aided programs, about one-third are provided from the central account. Local contributions comprise the remaining two-thirds. In 1955, for example, the recipient governments committed \$25.7 million in local

Since governments other than the United States also contributed contributions. more than \$6 million to the central account, the resultant proportion of the United States contribution to total government contributions to UNICEF from

all sources is 22 percent.

UNICEF works in close conjunction with the World Health Organization (WHO) and the Food and Agriculture Organization (FAO), which are concerned generally with matters of health and nutrition respectively. There is a clear division of responsibilities among these organizations. UNICEF provides the supplies and equipment which are not locally available; while the WHO or FAO. as appropriate, furnishes the technical assistance and know-how requested by the governments in the planning and execution of the programs. This clear-cut difference in emphasis simplifies the question of coordination, and assures that "the resources of the United Nations is health, nutrition, and welfare are alined in a unified approach in helping governments meet children's needs.'

UNICEF has had remarkable success in stimulating new and expanded work on the part of governments and peoples receiving aid. Not only have local matching contributions been generous, but more basic accomplishments have been attained. As the result of joint UNICEF-World Health Organization activities, there has been a growing awareness of the importance of adequate health facilities and health personnel at all levels of government. budgets have been expanded, more competent personnel are entering careers in public health work and in a number of countries maternal and child health divisions have been established within public health departments. Even more significant perhaps than the record of government action within the assisted countries are the added desires and the efforts made by people at the community level to help themselves. The UNICEF cooperative approach has instilled in people a sense of pride and an initiative which has motivated them to voluntary action locally well beyond that which could be achieved by government action alone.

All of us recognize that UNICEF could not do everything even if it set out do so. The resources available for international assistance are far too inadequate to meet the worldwide needs in the field of child health and welfare. UNICEF's role is not to assume responsibility itself for instituting and conducting child health and welfare programs, but to encourage and assist individual govern-

ments in developing and expending their own programs.

The principal areas of activity receiving UNICEF assistance are:

1. Basic maternal and child health and welfare services, including the establishment of rural health centers and clinics and the training of nurses and midwives.

2. Mass health campaigns against such crippling and killing diseases as

malaria, yaws, tuberculosis, trachoma, and leprosy.

3. Activities to improve nutrition including long-range child feeding programs

and the increased production and use of milk.

4. A limited amount of UNICEF's resources each year is used to provide emergency assistance for the victims of catastrophes such as earthquakes, floods, droughts, and famines, where the welfare of the child population is seriously affected. Such aid is primarily in the form of food and clothing. In 1955 emergency assistance constituted only 6 percent of the total program, which

is the smallest proportion since UNICEF was established.

There were two developments of special significance in the UNICEF program during 1955 which might be of interest to your committee. The first of these was the intensification of malaria control programs in order to assure eradication of this serious disease. Public health experts have become increasingly alarmed that malaria soon will not be susceptible to control because of resistance to DDT of some of the malaria-bearing mosquitoes. A major eradication effort, therefore, was judged to be necessary. Initiation of this program has fired the hopes of all countries where malaria is prevalent, and has inspired them to redouble their efforts to seek its extermination. The malaria eradication programs in the individual countries are conducted jointly by the World Health Organization and UNICEF in cooperation with the assisted government. Close coordination is maintained at all stages to avoid duplication of funding and activities.

The second development is the increased emphasis on leprosy control programs as the result of the successful experiments in the treatment of the disease through mass campaign techniques in Nigeria and the Philippines. It now appears possible that in time we can look forward to complete elimination of leprosy in

the world.

Statistics with respect to how many programs UNICEF has assisted or how many children and mothers have benefited therefrom continue to be impressive. Again in 1955 the number of countries reached and the number of beneficiaries were greater than in any previous year. There is attached as an annex a statement showing in detail the number of beneficiaries of the UNICEF program in 1955.

Much has been accomplished by UNICEF in its 10-year span of existence. This is naturally gratifying. The job is far from complete, however, and this is not time to let our interest in or support of UNICEF weaken. The needs of children remain largely unmet in many areas of the world. Through the continuing inspiration and material assistance furnished by UNICEF, with the enthusiastic support and cooperation of the countries concerned, further inroads will be made on unhealthful and unsanitary conditions, and millions of children will grow to become more useful and productive citizens.

#### ANNEX

#### United Nations Children's Fund Summary of Beneficiaries in 1955

Number of programs aided by UNICEF in 1955, 264. Number of countries and territories assisted, 92.

Number of beneficiaries:	
BCG Antituberculosis vaccination (children vaccinated)	<b>16, 521, 0</b> 00
Antimalaria campaigns (children and mothers protected)	6, 107, 000
Yaws control (children and mothers treated)	1, 660, 000
Trachoma control (children treated)	<b>1, 131, 00</b> 0
Feeding through school lunches and maternal and child welfare centers (peak number of children receiving daily ration)	3, 000, 000
Emergency feeding (peak number of children receiving daily ration)	2, 700, 000
Total	<sup>1</sup> 31, 129, 000

¹Not included in the above are the many children and mothers who receive benefits (other than milk) from the over 10,000 maternal and child welfare centers, clinics, and children's and maternity hospitals aided by UNICEF. There are still more beneficiaries from UNICEF assistance to vaccine production plants, leprosy control, communicable disease control, and milk-drying and pasteurization plants.

#### United Nations Refugee Fund, Fiscal Year 1957

This statement is submitted in support of the request for an authorization to continue United States participation in the United Nations Refugee Fund, which is administered by the High Commissioner for Refugees. It will be of interest to the committee to know that the High Commissioner's Office last fall received the 1954 Nobel Peace Prize in recognition of its devoted and effective service on behalf of refugees.

The United Nations High Commissioner's program represents one arm of a well-coordinated three-prong attack on the refugee problem in Europe. The other two are the Intergovernmental Committee for European Migration, which is primarily concerned with moving migrants, and the United States escapee program, which advances certain political, security, and humanitarian objectives of the United States. Each program concentrates on a special area of the refugee and migrant problem and together they bring to bear the varied resources and talents required to meet the complex problem of the unabsorbed populations of Europe.

We are requesting a new authorization of \$2.3 million as a United States contribution to UNREF for the 18-month period beginning January 1, 1956. It is proposed that \$1.5 million be used as a contribution for the 1956 calendar year program and \$800,000 as a contribution toward the first half of the 1957 calendar year program.

The U. N. Refugee Fund, like other U. N. voluntary programs, operates on a calendar-year basis. This request for an 18-month period rather than for a year will enable the United States to make a definite pledge at the UNREF pledging conference in November 1956 to cover the first 6 months of the calendar year 1957 program. It will greatly facilitate advance program planning by the High Commissioner and will have the effect of encouraging contributions from other governments.

The 1956 UNREF target total is \$4.4 million. Added to this are certain 1955 projects amounting to \$1.2 million which were unimplemented in 1955 due to insufficient funds. The total effective target for 1956 therefore is approximately \$5.6 million.

Last year other governments contributed slightly over \$2 million to the High Commissioner's program. On the basis of a one-third ratio to the combined contribution, the United States contribution amounted to \$1,006,000 out of

an appropriation of \$1,200,000.

Inasmuch as the High Commissioner's program did not get underway until the last half of 1955 we feel that this was a creditable showing. We are encouraged by the number of countries which have already contributed to the program and by the results achieved in the short time it has been operative. As already indicated, however, the total program of 1956 includes a carryover of unimplemented projects from the 1955 calendar-year program. We, therefore, propose to apply the \$194,000 balance of the 1956 fiscal year appropriation to this unimplemented portion of the 1955 calendar year program.1

You will recall that this permanent solutions program was planned as a 4-year undertaking with a target program of \$16 million. We felt that the United States contribution toward that total should approximate one-third.

During the first few months of the program we have, of course, gained experience which we hope will be put to good use during the remaining years. One of the biggest problems facing the High Commissioner's program is the disposition of the so-called difficult-case refugees. By this I mean old people, people with chronic illnesses, and others whose only possible solution is institutionalization of some kind. From an economic point of view these people are unproductive and a drain on the economy of any country in which they live. For this reason, we have been heartened by the generosity of several small countries, including the Netherlands, Sweden, Denmark, Norway, Switzerland, and Ireland, which have been taking difficult cases in increasing numbers and which plan to continue doing so in the future.

In addition to providing institutional care for the difficult cases, most of these small countries are also making financial contributions to the central account of UNREF. We feel that the money these governments are expending directly on behalf of difficult cases to provide institutional care is a vitally important contribution to the High Commissioner's program. We believe that the United States contribution should be used in part to encourage such activity. such means of encouragement would be to consider the costs undertaken by these governments on behalf of the difficult case refugees as a valid financial contribution to the total program. We therefore propose that such contributions be taken into account in determining the amount of money the United States contributes within the limitations imposed by the annual appropriation and the one-third ratio of the United States to total government contributions.

A few words about the background of UNREF and a brief report of its

activities during 1955 may be of interest to the Committee.

The program came into being as a result of a General Assembly resolution of October 1954. This resolution approved a 4-year effort by the United Nations High Commissioner to find permanent solutions to the problems posed by some 300,000 unassimilated refugees, mostly in Austria. Germany, Italy, and Greece. Some 66,000 of these still live in camps, many of them under wretched condi-A solution to their problem is a high priority of the High Commissioner's tions. program.

A United Nations refugee fund was established to consist of voluntary contributions from governments and from private sources. A 20-member executive committee, on which the United States sits, was established to provide policy direction to the High Commissioner and to review and approve proposed pro-The 20 members of the executive committee are all governments which abhor the tyranny of communism. Neither the USSR nor any other Communist country is on the committee. They cannot be members because the established criterion for membership is a "demonstrated interest in and devotion to the solution of the refugee problem."

<sup>&</sup>lt;sup>2</sup> Subsequent to completion of testimony on the UNREF Program, the Senate Foreign Relations Committee was advised by the Department of State that it was planning to contribute \$194,000 to UNREF from fiscal year 1956 funds in connection with a special program for refugees in Austria. This supplementary contribution is to be used primarily for the placement of so-called hard core or difficult-case refugees in institutions. It involves no implication, expressed or implied, that a further contribution for this purpose will be repeated in the future.

This is called a permanent solutions program because its major objective is to integrate refugees into the countries in which they now reside—to make them useful and productive members of society and to rekindle hope in their futures. It is a self-help program, and international funds are combined with local funds to provide the small assistance necessary to give a start to the refugee on the road to becoming a self-supporting and self-respecting human being.

The program also provides for permanent institutional care for difficult cases. Finally, it provides limited emergency assistance for certain refugees, mostly in the Middle East and China, who without such aid, face the prospect of

starvation, or death by disease.

Most of the actual operation of the High Commissioner's program is carried out by voluntary agencies such as the National Catholic Welfare Conference. the World Council of Churches, the Lutheran World Service, the American Joint Distribution Committee, and the American Friends Service Committee. Projects are drawn up in collaboration between these agencies, the countries of asylum, and the High Commissioner's Office. They are then submitted to the executive committee for approval. Such projects include a wide variety of permanent to refresh old skills or develop new ones. Others provide loans for families with Some, for example, provide vocational training courses solutions for refugees. agricultural skills to help settle them on farms. Through the use of revolving funds, grants and loans are made available to qualified tradesmen and craftsmen to enable them to rent workshops, to buy materials, and establish themselves Employment counseling is provided to assist the refugee to find employment opportunities, and housing projects are undertaken in areas where employment opportunities exist but where housing is unavailable.

During the 6 months ending December 31, 1955, when the UNREF program was in actual operation, a total amount of \$3,134,916 was allocated to benefit an estimated 23,409 refugees. Of this number, 16,100 were to be assisted by the various permanent solutions projects, 6,400 were to receive emergency assistance,

and funds were provided for placement of 909 difficult cases in institutions.

In addition to the \$2 million contributed by 20 other governments to the 1955
UNREF program, the people of Holland in a national campaign raised \$750,000 as a private contribution to the fund. These sums do not include the considerable local expenses borne by the countries of first asylum, nor do they include contributions of other countries in providing for the permanent maintenance and

care of difficult cases admitted to their territories.

Continued United States support for this international effort on behalf of these unassimilated refugees is important for political and humanitarian reasons. It is an effective way of helping to blunt the current Soviet redefection campaign which seeks to discourage future defections from behind the Iron Curtain and to persuade those who have defected to return home. This campaign is particularly aimed at the hard-core residual group to which the High Commissioner's

program directs its major efforts.

Our support of this program is perhaps even more important for humanitarian The American people have never been indifferent to human suffering. Our strength lies in the practice of our moral principles. We cannot ignore the continued plight of these human beings, victims of political and religious persecution, who have turned to the free world for asylum. After nearly 10 years of marginal existence, many are beginning to despair. The successful termination of this situation is an obligation of western civilization to which we must continue to contribute our full share.

Senator Green. Shall we take them up one by one, and follow you? Mr. Phillips. I was not going to read the statements, but was going to comment briefly, and if there were any questions——Senator Green. We have not had an opportunity to read them, so you had better tell us what you are talking about.

Mr. Phillips. I will be very glad to tell you, Mr. Chairman. Senator Knowland. Take the first one first. Do you have a table on the technical assistance program which you could supply to the committee, showing the total amount pledged by each of the U. N. countries and the total of payments on those pledges for the last 4 years?

Mr. Phillips. Yes, Senator. We have several tables here which I plan to offer, and I think I have a table here which will supply that information. Would you like me to have them circulated?

Senator Knowland, Yes.

#### U. N. TECHNICAL ASSISTANCE

Mr. PHILLIPS. The first of these three programs is the United Nations Expanded Program of Technical Assistance. Authorization for the amount of \$15.5 million is being requested for fiscal year 1957 as

the United States contribution for the calendar year 1957.

As the committee is well aware, support of this program has become an integral part of our total technical assistance effort, and we feel that it is vitally important that the United States could continue its strong leadership in this program.

# PERCENTAGE OF UNITED STATES CONTRIBUTION TO U. N. TECHNICAL ASSISTANCE

The United States percentage share of total Government contributions has been gradually reduced from approximately 60 percent, to 50 percent for the year 1956. We are proposing today that the United States should pledge \$15,500,000 for the calendar year 1957. That is the same amount, Senator, as was proposed and pledged for the calendar year 1956.

Senator Knowland. Why should we pledge 50 percent when the Congress on numerous occasions has given its indication that we

should work towards a level of 331/3 percent as a maximum?

Mr. Phillips. I believe the question of the one-third limitation on the United States percentage, applied to the assessed budgets of the United Nations and the specialized agencies, that is, the budgets of the United Nations proper and of the Food and Agriculture Organization, the International Labor Organization, and so forth. There has always been a recognized difference between assessed contributions and contributions to these voluntary programs, which in the case of technical assistance, for example, complements our own bilateral activities.

We carry on technical assistance through our own program, and the programs carried on in this way through the United Nations

are in a sense complementary to our own.

Furthermore, there is the added fact that in the case of the technical assistance program, many of the contributing countries are in fact the so-called underdeveloped countries, the recipient countries, who are obviously not in a position to bear the same share of the total program that the more developed countries might be expected to

Nevertheless we have succeeded in bringing the United States percentage down in the last 3 years, from 60 to 50 percent. We feel that for the time being, we should try to keep it approximately at that level; but as other nations demonstrate an ability to continue to assume a larger share of the burden, we can look toward a period of perhaps a somewhat lower United States percentage.

Senator Knowland. I do not necessarily agree with your premise,

but this is not the time to go into detail on that.

#### PLEDGES AND CONTRIBUTIONS

Taking your list of United Nations Expanded Program of Technical Assistance contributions by years, are these the pledges, or the actual payments into the fund?

Mr. Phillips. In each of these calendar years, these are actual con-

tributions.

We have a table, I believe, of pledges. There is listed on page 4, unpaid pledges, which indicate the shortages in payment on the pledges, by calendar years, Senator.

The first three pages of this table, indicate pledges not contributions by calendar years. Page 4 indicates unpaid pledges as of April 12, 1956.

It is interesting in this respect to see what a very high percentage of pledges are paid by the participating countries in this program.

For example, in the calendar year 1955, out of total pledges of \$27,800,000, approximately \$1 million was outstanding as of April 12, 1956. On the basis of experience, by the end of this year virtually

all of that will be paid in.

As I said, the request this year is authorization for an amount of \$15.5 million, which would permit the United States to make a pledge of this amount for calendar year 1957 with the limitation that the United States contribution not exceed 50 percent of all governmental contributions to the central fund.

#### LOCAL CONTRIBUTIONS

In addition to contributions to the central fund, governments receiving this technical assistance also make substantial contributions to the local costs of the projects. These are estimated at about \$60 million for 1955, which is approximately twice the amount financed internationally.

When you take these local contributions into account, the United States percentage of the total cost of the program for 1955 is approxi-

mately 17 percent.

One of the factors to be taken into consideration in judging the percentage of the United States contribution is this very substantial amount contributed to the program by the recipient countries for local costs, supplies, equipment, labor, material, and so forth; and if we include those, the United States contribution to the program in relation to all contributions, is approximately 17 percent.

I would like, Mr. Chairman—

# LIMIT ON UNITED STATES PERCENTAGE OF CONTRIBUTIONS

Senator Green. Was that our intention when we originally agreed to pay more than 50 percent of the total?

Mr. Phillips. No, Senator, the intention has always been to relate our payments to the amounts paid into the central fund by other governments. We have always made this the basis—

Senator Green. I thought you said 50 percent was the maximum. That meant the funds paid into the central fund, not the funds locally contributed in addition?

Mr. Phillips. Yes, sir. What you said is correct; 50 percent of the Government contributions paid directly to the central fund. Senator Green. That is right.

# UNITED STATES VOICE IN THE ALLOCATION AND CONTROL OF FUNDS

Senator SMITH. Are you going to describe how these funds are allocated and what controls are on them? I asked that question when I was at the U. N. last year, and never got a clear answer. Do we have a voice in the distribution proportionate to our contribution, or might we be outvoted?

Mr. Phillips. There is a Technical Assistance Board in New York which consists of the representatives of each of the specialized agencies and a chairman appointed by the Secretary General. The Technical Assistance Board has the responsibility for allocating these funds

from this central fund to the specialized agencies.

This is done on the basis of a percentage formula.

For example, the current basis for distribution takes into account allocations in previous years. For example, if, say, \$5 million had been allocated in 1955 to the Food and Agriculture Organization, the formula for determining the 1956 allocation limits the decrease in the allocation to not more than 15 percent of the 1955 allocation. There cannot be a reduction in any 1 year of more than 15 percent from the previous year.

This is a built-in safeguard so as to prevent wide fluctuations from year to year in the work of the specialized agencies. If they did not have some degree of continuity, it would be very difficult for them to

program very far in advance.

I won't try to describe more of the details of the allocation formula. Suffice it to say that the Technical Assistance Board does each year

allocate these funds to the various specialized agencies...

The system of programing takes into account the needs of the recipient countries themselves; early estimates are made almost a year in advance based on total funds which are likely to be available as indicated by previous experience. But the distribution point is the Technical Assistance Board.

### LOWERING THE PERCENTAGE OF UNITED STATES CONTRIBUTIONS

Senator Knowland. I respectfully suggest that you not freeze your thinking at 50 percent United States contributions because I do not think it necessarily follows that the Congress is wedded to or intended that that be, a permanent ceiling. I think, to the contrary, the intent has been expressed time and time again that these various agencies, not all in 1 year, shall work toward a 33½ percent level.

I think that if you, or anyone in the other nations constituting the agency, get any fixed opinion, that Congress will continually support the 50 percent ceiling, you are in for a shock one of these days.

Mr. Phillips. Senator, we agree. We feel that it is desirable that we should move in a downward direction, and we feel that based on

the experience of the last 2 or 3 years, progress has been good.

But at the same time, we do not wish to move downward so rapidly that the total program will begin to shrink up. It has been encouraging that other governments have been taking up the slack.

Senator Knowland. No, but I think we should encourage others to carry more of a proportionate share of the load, because this country is bearing some very heavy burdens, and will have to continue to do so for some years. I think it is not unreasonable to expect the other member states to increase their percentages of contributions.

Mr. Phillips. I agree wholeheartedly, and I think it has been encouraging that they are picking up, especially in the last three years,

when there has been noticeable improvement in this respect.

Senator Knowland. The only discouraging factor to me was that when you reached the 50 percent level you were more or less assuming that was going to be a permanent level. I just think that is not

necessarily so.

Mr. Phillips. I am sorry if I gave that impression. I didn't intend to give that impression. I merely said we were down to that, and we would like to have a little leeway not to move too fast. We don't want to upset the program precipitously. But we would agree, I think, that the trend should be downward.

Mr. Chairman, I have 2 or 3 other tables here on this particular program which I would like to submit for the record.

Senator Green. You proceed in your own way.

## EXAMPLES OF U. N. TECHNICAL ASSISTANCE

Mr. Phillips. One of these is a table which might be helpful to the committee. It contains illustrative examples of various kinds of programs that are being carried on in different parts of the world, which I think would be of interest.

Senator Green. Give us an example of various kinds of programs. Mr. Phillips. Well, for example, this statement highlights the sort of work that is being carried on in Ceylon. There is shown here a program which is carried on under the United Nations Technical

Assistance Administration, and is entitled "Salt Output."

With the help and advice of U. N. experts, Ceylon has succeeded in increasing its salt production by some 50 percent, at the same time cutting production costs and improving quality. A small railroad track installed in the producing area now enables a laborer to collect five times as much salt a day as heretofore could have been accomplished under manual methods.

In another part of the world, in Iraq, the World Health Organization has engaged in a tuberculosis control project. There is a very high incidence of tuberculosis in Iraq, which is typical of many

underdeveloped countries.

The World Health Organization, in October 1953, established a tuberculosis control project. In addition to four international experts. an X-ray technician, a laboratory technician, and so forth-

Senator Green. It varies from country to country?

Mr. Phillips. Yes, Senator.

Senator Green. And in years, also?

Mr. Phillips. Of course, each of the specialized agencies concentrates on its own particular specialty—the World Health Organization on health needs, the ILO on working standards and conditions.

# HOW PROGRAM IS PLANNED

Senator Green. Who decides that?

Mr. Phillips. The programs are worked out by the specialized agencies in cooperation with the resident representative, that is, the representative of this Technical Assistance Board I spoke to you about. He is perhaps comparable to the mission chief of the United States operations mission in the local country.

Each year these programs are worked out on the basis of the country's needs. A certain amount of money is necessary for health. A certain amount may be necessary for education. A certain amount,

perhaps, to increase

Senator Green. What I mean is, who determines that in each case? Mr. Phillips. Who determines the amount that is needed?

Senator Green. Yes. How is the money to be divided.

Mr. Phillips. Well, the process starts at the outset in the Technical Assistance Board in New York. They make a financial target total which is sent out to each resident representative. He is told, "Now, judging according to our best estimates of what is available, here is what you will have as the basis for planning."

The resident representative and the representatives of the specialized agencies in that country then confer with the local government as to

the needs.

They then formulate a total program within this general target figure. This figure, which is returned to the Technical Assistance Board, and all of these proposed program figures for each country, are then reviewed in terms of the amount of money available. The proposed total program is then sent to a body known as the Technical Assistance Committee. I have a chart here which I think will simplify this for you. I shall be glad to distribute it. This is the basis on which programs are drawn up over a period of about 12 months. Each calendar year's planning begins about a year in advance.

I have two more tables I would like to submit. One indicates project costs by region and country. It shows a breakdown of the amounts of money which are spent for each country and each region. If I may

submit that also for the record.

I have another table which shows the countries and territories receiving technical assistance, both from the United States and the United Nations.

# NEED FOR MULTILATERAL AND BILATERAL TECHNICAL ASSISTANCE

Senator Green. Do you think it is a good idea to have these two different programs? Would it be better if the United States made all

its contributions through the United Nations itself?

Mr. Phillips. I think for the time being, Senator, we have need for both approaches. In some areas, one approach is preferable to the other. I think, as was indicated in your own report, there are parts of the world very sensitive to the donor-recipient relationship, in which they would prefer to receive technical assistance through multilateral channels. I think in other parts of the world, where this suspicion does not exist, there may be some advantages to having a bilateral program, and I do not think at this time we should consider either/or, but a combination of both.

I have a final table which I should like to submit, a brief analysis of the Soviet bloc contributions, the rubles and contributions from the Soviet bloc countries, since this matter has become of interest. This is a fairly complete statement. I think the committee may be interested in having it included in the record.

Mr. Chairman, that is all the material I had planned to submit on

this program.

(The tables referred to are as follows:)

# UNITED NATIONS EXPANDED PROGRAM OF TECHNICAL ASSISTANCE

### Government contributions by years

[United States dollar equivalent]

### A. PLEDGES

		<del></del>					
	Calendar	Calendar	Calendar	Calendar	Calendar	Calendar	ĺ
Country	year	year 1952	vear 1953	vear 1954	year 1955	year 1956	Total
	1950-51	year 1302	year 1000	year 1504	year 1900	year 1900	
fghanistan	\$7, 001	\$7,001	\$10,000	\$10,000	\$10,000	\$10,000	\$54,
rgentina	200, 000	200,000	200, 000	300, 000	300, 000	100, 000	1, 300,
ustralia	400, 921	190, 000	400, 000	400, 000	500, 000	1 312, 520	2, 203,
ustria		19, 231	19, 231	19, 231	38, 462	38, 462	153,
elgium	270, 000	270, 000	297, 000	337, 500	337, 500	437, 500	1, 949.
olivia	12, 500	12, 500	25,000	7, 895	7, 895	20,000	75,
razil	459, 459	459, 459	459, 459	540, 541	270, 270	324, 324	2, 513,
ulgaria						14, 706	14,
urma	7, 500	8, 000	12,000	12,000	18,000	18,000	75,
yelorussian SSR				50, 000	50, 000	50,000	150,
ambodia		5, 000	5, 000		2,000	5, 000	17,
anada		750, 000	800, 000	1, 500, 000	1, 500, 000	1, 800, 000	7, 122,
eylon	15, 009	15, 000	15, 000	15, 000	18,000	18, 000	96,
bile	90, 000	174, 194	209, 032	58, 909	100,000	110,000	742,
hina	10,000	10,000	10, 000	15, 000	15, 000	20,000	80,
olombia	51, 020	100, 000	100, 000	140, 000	140, 000	140, 000	671,
osta Rica	5, 000	5, 000	5, 000	6, 000	7, 000	8, 400	36,
uba	50,000	50, 000	50, 000			25, 000	175,
zechoslovakia				69, 444	69 444	69, 444	208,
enmark	95, 555	108, 585	434, 342	434, 342	550, 166	579, 123	2, 202,
ominican Republic		6, 000	10, 000	10,000	20,000	24, 000	70,
cuador	6, 300	6, 300	6, 400	6, 400	10,000	10, 000	45,
gypt	81, 850	81, 850	86, 157	86, 157	100, 517	100, 517	537,
l Salvador	5,000	5, 000	6, 000	6, 000	7, 000	7, 000	36,
thiopia.	20, 129	20, 000	20, 000	20, 000	20, 000	20, 000	120,
ederal Republic of	1	110 040	140 010	140 010			
Germany 'inland	5, 000	119, 048 10, 000	148, 810	148, 810	148, 810	238, 095	803,
rance	1, 207, 500	1, 064, 643	10,000	10,000	15, 000	15, 000	65,
reece	20, 295	20, 295	1, 207, 500 20, 295	1, 207, 500 5, 000	1, 448, 571	1, 448, 571	7, 584,
uatemala	5, 000	7, 500	7, 500	7, 500	5, 000 7, 500	5, 000	75,
laiti	6,000	12,000	12,000	12,000	12, 000	7, 500 14, 400	42, 68.
londuras.	8,000	8,000	9, 600	8,000	8, 000	14, 400	
celand	_ 0,000	2, 500	2, 800	, 806	2, 806	3, 684	41, 14,
ndia	250, 000	275, 000	275, 000	300, 000	400, 000	450, 000	1, 950,
ndonesia	121, 522	43, 860	63, 585	65, 790	65, 790	65, 790	426,
an	40, 000	40, 000	40, 000	50, 000	50, 000	50, 000	270,
aq	5, 005	5, 000	11, 201	13, 953	13, 928	28, 003	77,
eland	13, 994	14, 002	,	14, 001	14, 002	20,000	55.
srael	27, 988	28,003	40,000	50, 000	27, 778	50, 000	223,
aly	93, 000	93, 000	93, 000	96, 000	112,000	112,000	599.
apan		80, 000	80, 000	80,000	90,000	90,000	420.
ordan				2, 815		50, 000	2,
orea	5, 000	5, 000	3,000	3,000	3,000	3, 500	22.
808		5, 000	2, 823	2, 857	1, 429	1, 429	13.
ebanon	6, 556	6, 846	6, 846	6, 846	6, 846	6, 846	40.
dberia	8, 000	12,000	12,000	15, 000	15, 000	20, 000	82.
ibya			3, 000	3, 600	4,000	5, 000	15,
iechtenstein				- 467	467	0,000	10,
uxembourg	2, 520	2, 500	2, 500	2, 500	2, 500	3,000	15.
[exico		34, 682	34, 682	34, 682	24, 000	33, 600	161.
Ionaco	2, 857	2, 857	1, 143	1, 429	1, 143	1, 429	10,
etherlands	400,000	400,000	421, 053	600,000	660, 000	760, 000	3, 241,
ew Zealand	124, 138	126, 015	125, 593	125, 593	168, 020	168, 020	837,
icaragua		5, 000	5, 000	5, 000		6, 500	21.
orway		55, 999	69, 999	97, 998	380, 792	380, 792	1, 020,
akistan		151, 103	166, 213	166, 213	166, 213	166, 213	958.
anama		3,000	3,000	3,000	3,000	3, 600	15,
araguay		5, 000	5,000	8,000	8,000	12,000	38,
	·		10,000	12,000			

# Government contributions by years-Continued

# [United States dollar equivalent]

# A. PLEDGES-Continued

Country	Calendar year 1950-51	Calendar year 1952	Calendar year 1953	Calendar year 1954	Calendar year 1955	Calendar year 1956	Total
PhilippinesPolandRomania	\$50, 000	\$50, 000	\$50, 000 75, 000	\$55, 000 75, 000	\$55, 000 75, 000	\$66, 000 75, 000 16, 667	\$326, 000 300, 000 16, 667
Saudi Arabia		15, 000	15, 000	15, 000	25, 000	25, 000 10, 000	95, 000 10, 000
Sweden Switzerland		357, 336 218, 862	386, 623 231, 852	483, 279 233, 372	579, 934 233, 372	695, 921 233, 645	2, 599, 618 1, 384, 748
SyriaThailand	11, 410 19, 758	11, 410 34, 000	11,410 40,000	11, 410 40, 000	11, 867 40, 000	11, 867 40, 000	69, 374 213, 758
Turkey Ukrainian S.S.R.	183, 638	182,000	183, 571	201, 495 125, 000	201, 495 125, 000		1, 153, 694 375, 000
United Kingdom United States	12,007,500	1, 260, 151 11, 400, 000	1, 400, 168 12, 767, 145	1, 820, 218 13, 861, 809		2, 240, 000 2 15, 500, 000	11, 088, 792 80, 536, 454
U. S. S. R Uruguay	99, 408	50,000	1, 000, 000 75, 000	1, 000, 000 75, 000	1,000,000 100,000	1,000,000 120,000	4, 000, 000 519, 408
Vatican City Venezuela		20,000			2, 000 150, 000	2, 000 66, 000	6,000 350,000
Vietnam Yemen	4, 200	7, 500	7, 500 2, 100	7, 500 2, 100	20 500	110,000	22, 500 8, 400
Yugoslavia	59, 000	50,000	l	82, 500	82, 500	\ <u>-</u>	437, 500 143, 399, 465
Total	20, 035, 578	18, 797, 232	22, 405, 633	25, 342, 462	27, 878, 017	28, 940, 543	145, 599, 405
Number of countries pledging per year	54	65	69	74	70	72	

# B. UNPAID PLEDGES AS AT APRIL 12, 1956

A de-bassistas						\$10,000	\$10,000
Afghanistan					\$300,000	100, 000	400,000
Argentina						38, 462	48, 077
Austria					9, 615		
Belgium				\$13,500		437, 500	451,000
Bolivia						10,000	10,000
Brazil						324, 324	324, 324
Bulgaria						14, 706	14, 706
Byelorrussian SSR						50,000	50, 000
Cambodia						5,000	5,000
Canada						1, 800, 000	1,800,000
Ceylon					20000000	18,000	18,000
Chile					,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	110,000	110,000
Chile						20, 000	20, 000
China					40,000	140,000	180,000
Colombia					40,000	1, 400	1, 400
Costa Rica			:::-			25, 000	75, 000
Cuba			\$50,000				506, 733
Danmark		1				506, 733	
Dominican Republic						24, 000	24, 000
Dominican Republic Ecuador		l		6, 195	267	10, 000	16, 462
Egypt					14, 360	100, 517	114, 877
El Salvador						7,000	7,000
Ethiopia					l'	20,000	20,000
Finland						15,000	15,000
rmana						1, 448, 571	1, 448, 571
France			<u>-</u>			_, _,, ,,,,,	
Germany, Federal Republic of		l .	1	i		238, 095	238, 095
public of						7, 500	7, 500
Guatemala						14, 400	14, 400
Haiti							16,000
Honduras				8,000	8,000		3, 684
Toolon d		3				3,00%	
India						1 7600,000	450, 000
Indonesia				İ		1 00,700	65, 790
Iran						1 00,000	50,000
Iraq					l'	28, 003	28,003
Tau						50,000	50,000
Israel Italy			09 000	06 000		112,000	301,000
[taly			30,000	50,000		90,000	90,000
Japan		) <u>-</u>		}		3, 500	5, 500
Japan Korea, Republic of Lacs		) \$2,000				1,429	1, 429
Laos						1,420	6,846
Lehanon						0,010	20,000
Liberia						20,000	5,000
T.ibwo '	i	1	1	1		0,000	
Marian	Į.	1		l		90,000	33, 600
Monaco		,	i	1	1	1,429	1,429

See footnotes at end of table.

### Government contributions by years-Continued

[United States dollar equivalent]

#### B. UNPAID PLEDGES AS AT APRIL 12, 1956 -Continued

Country	Calendar year 1950–51	Calendar year 1952	Calendar year 1953	Calendar year 1954	Calendar year 1955	Calendar year 1956	Total
Netherlands						\$540,000	\$540,000
New Zealand							
Nicaragua							6, 500
Norway							380, 792
Pakistan						166, 213	166, 213
Panama			.	İ		3,600	3,600
Paraguay						12,000	12,000
Peru		<b></b>	\$10,000				22,000
Philippines		<u></u>	. - <b></b>				66,000
Poland						75, 000	75,000
Saudi Arabia				1		25,000	25,000
Spain						10,000	10,000
8weden.					]	695, 921	695, 921
Switzerland				<b>-</b>	l <del></del>	175, 234	175, 234
Syria					\$11,867	11,867	23, 734
Thailand			l			40,000	40,000
Turkey Ukrainian S. S. R		<b>-</b>				201, 495	201, 495
Ukrainian S. S. R.		<b></b>				125,000	125,000
U. S. S. R.	<b></b>					1,000,000	1,000,000
United Kingdom						1, 400, 000	1,400,000
United States					550, 000	9, 500, 000	10, 050, 000
Uruguay.	\$99, 408			75, 000	100,000	120,000	394, 408 2, 000
Vatican City						2,000	66,000
Venezuela Yugoslavia						66, 000 110, 000	110,000
I UEOSIA VIA						110,000	110,000
Total	99, 408	\$2,000	153, 000	210, 695	1, 034, 109	21, 318, 131	22, 817, 343

NOTE.—These figures represent contribution to the United Nations technical assistance special account from which allocations to the participating agencies are made. They do not include contributions made by recipient governments to the cost of projects carried out in their own countries in local currency or goods and services. These local contributions tions are estimated to be approximately twice the cost borne by the participating agencies financed from the special account.

¹Amount pledged for the first half of the calendar year 1956.
² Maximum contribution: Pledged subject to the condition that the contribution shall not exceed 50 percent of the total contributions from all governments.

## UNITED NATIONS EXPANDED PROGRAM OF TECHNICAL ASSISTANCE

#### ACHIEVEMENTS

### Ceylon, UNTAA, salt output

With the help and advice of UNTAA experts, Ceylon as succeeded in increasing its salt production by some 50 percent, at the same time cutting production costs and improving quality. A small railroad track installed in the producing area now enables a laborer to collect five times as much salt a day as he could before its construction.

#### Pakistan, UNTAA, water

In the arid lands of Baluchistan, a UNTAA expert, working with a UNESCO geophysical team, has assisted with the tapping of underground water resources. In 1954, the flow from existing wells in the Wad Valley (50 miles south of Quetta) has been greatly increased. The existing flow may later be doubled. In agricultural teams, new water has been found to support 15,000 people. Now an FAO team is exploring the agricultural utilization of the water.

# Ceylon, UNTAA, low-cost housing

Ceylon was unable with expensive traditional building materials to meet the new housing needs, especially in the cities, of its increasing population. It requested technical assistance in the development of new low-cost building materials which could be produced locally.

A UNTAA expert promoted the use of rammed and stabilized earth as a major low-cost building material. Experiments proved the new material to be satisfactory under all weather conditions. The UNTAA expert also organized several courses to train supervisors.

The Government made every effort to facilitate the work of the expert and to make use of his advice. The authorities put at his disposal the services of two assistant engineers and all necessary local personnel. It purchased two Broomwade compressor air rammers for his use and provided all other necessary equipment. It printed and disseminated pamphlets and other information

material prepared by the expert.

The new housing program of the Government, which envisages a yearly rate of construction of 50,000 houses, will be based to a great extent on the use of rammed and stabilized earth. Apart from the government-sponsored construction, private contractors are beginning to build blocks of houses in stabilized Attempts are being made to utilize the new material not only for the construction of low-cost workers' housing, but also for more elaborate middleclass housing.

Yugoslavia, UNTAA, industrial development

Yugoslavia has emphasized industrial production in its technical assistance It has frequently been able to utilize successfully expert services rendered on a short-term basis-sometimes for as little as a few months.

An ILO instructor who worked in the motor industry on the casting processes for the production of block cylinders and motor-heads for tractors succeeded in doubling the production of cylinder blocks and decreasing rejections by 10 percent.

Production costs at a Yugloslav plant for making fire-resistant brick have been cut by \$160,000 a year as a result of advice and training given by a UNTAA production expert.

An ILO instructor gave advice to one factory on the varnishing and enameling of electric wire. He assisted with the production of machines for cold varnishing, which are now in production for the first time in this factory. He also worked on the construction of a new modern vertical furnace for wire varnishing, so designed that it can be made in the country out of local materials. On the advice of this expert, changes in factory procedure were also adopted which had the effect of decreasing rejections and waste from an average of 15 percent to an average of 8-10 percent.

Technical assistance to Yugoslavia in the industrial field has also involved the granting of many fellowships to Yugoslav workers to study technological processes in other countries. Upon their return, many of these fellows have contributed to industrial development in Yugoslavia.

A trainee in the field of mining introduced new drills and hammers upon his In his enterprise, mining production has increased as a result by 12 return. Consumption of explosives has been reduced by 4 percent, and of caps and fuses, by 11 percent.

Another fellow, who specialized in the repair of railway equipment, introduced new methods of work and organization in his enterprise. As a result,

production was increased by 7 percent.

A trainee in the production of parts for agricultural machinery dealt successfully, upon his return, with difficulties occurring in the manufacture of tractor flywheels. As a result of his work, the wastage, which had averaged about 80 percent, was reduced to about 10 percent.

Iraq, ICAO, radio communication and aids to navigation

In Iraq, a radio engineer provided by ICAO, prepared a 3-year plan for the installation of radio communication and radio aids to air navigation. The plan

was accepted by the Iraqi Government and is being carried out.

As a result of his recommendations, a new transmitting station was put into service using 7 transmitters, with a total radio power of 14,000 watts as against 150 watts at the beginning. A radio beacon having a surface range of 250 nautical miles replaced a low power beacon having a range of less than 25 nautical The capacity of the Baghdad-Basra circuit has been increased from a few hundred words daily to more than 5,000, with considerable reduction in the transmit time. Two workshops were organized and equipped with modern tools, and the systematic servicing of receivers, transmitters, and teleprinters has been begun. A training course was also conducted in air traffic services, radio operations, radio maintenance, and meteorology. A total of 163 pupils were enrolled in various courses and 129 of these have already graduated.

The Government of Iraq showed its interest in the project by providing capital expenditure of about 400,000 on radio communications and radio aids equipment,

and also by providing equipment needed in the meteorological field.

Arab States, UNESCO, fundamental education

An Arab States Fundamental Education Center (ASFEC) was opened in January 1953 at Sirs-el-Layyan, Egypt, by UNESCO in cooperation with other specialized agencies and the Arab States. Students are trained not only at the Center but also on-the-spot, at pilot projects in the surrounding countryside. They work in five-man teams among the rural people, to help improve village living conditions in health, agriculture, and literacy. They are also shown how to assess the needs of a rural community, to plan for its development, and to evaluate its progress.

Expert personnel from the international agencies, consisting at present of nine persons, train Arab village workers in literacy techniques, elementary agriculture, and public health, and also furnish advice in overall educational methods

such as audio-visual aids and evaluation procedures.

At the present time, 120 trainees from 8 Arab countries are enrolled at the Center. Another 91 have already graduated, to go back to their own countries in order to carry on in their own national village programs what they have learned at ASFEC.

India, UNESCO, scientific documentation center

The UNESCO project for a scientific documentation center in India, which has now been taken over by the Government, is an example of international technical assistance performing unusually well. In March 1950, the Indian Government decided to request assistance from UNESCO in the establishment of a national center for scientific documentation. Eleven national laboratories, 16 research institutes under the Ministries of Agriculture and Health, and various other research laboratories in universities and elsewhere would thus be spared the necessity of attempting to meet their very large individual but overlapping needs for scientific periodicals and publications.

There are, for instance, about 40 important journals in the world dealing entirely with physics, but another 800 journals frequently contain valuable articles on this subject. A similar situation obtains in other fields of science. The organization of the Center began in 1951. The Indian Government's

The organization of the Center began in 1951. The Indian Government's Council of Scientific and Industrial Research placed its library at the disposition of the Center and furnished 6,000 square feet of office and library space. An Indian director was appointed, together with an Indian staff, which now consists of 19 professional and clerical workers. The Indian financial contribution has attained a level of approximately \$200,000 per year.

The UNESCO team was composed of 3 experts: 1 in scientific documentation; 1 in reproduction of documents; and 1 in scientific translation. Some fellowships were made available. Books, periodicals, and photographic and reproduction equipment were also supplied. As of December 31, 1955, the UNESCO con-

tribution amounted to \$158,000.

The Center compiles bibliographies, supplies information, obtains copies of scientific articles either by interlibrary loan or through microfilm copies, copies documents, and makes translations. Translations are made from a wide variety of foreign languages into English, never into any of the Indian languages, and are charged for at a flat rate per page, regardless of content.

Demands upon the Center have been heavy. In the year 1953-54, 360 articles were translated. Among the subjects thus covered were the following: Wave flow of thin layers of viscous liquids; production of drinkable water from sea water; root systems using radioisotopes; treatment of leprosy; and polarographic

reduction of cadmium cyanide.

In 1955, the center was taken over entirely by Indian personnel. It is clearly making a significant contribution to the development of science in India. UNESCO records the project as one of its outstanding successes. Official discussions have already started on how best to meet the need for local and specialized services, linked with the center, in particular regions of the country and in particular fields of science. Members of the staff have been trained to a high point of efficiency. Experience gained in this project will be applied in a similar project which is contemplated for Pakistan.

Pakistan, UNESCO, geophysical observatory

International experts sent by UNESCO assisted Pakistan in establishing the newest geophysical observatory in Asia at Quetta, the capital of the province of Baluchistan.

One section of the observatory is concerned with earthquakes, which have done great damage in Pakistan. A seismological map of Pakistan is being constructed

to show zones where earthquakes are most likely to occur. Earthquakes cannot be predicted; the hope is to establish stricter building codes in dangerous areas.

The geomagnetic section is now making continuous observations of variations in the earth's magnetic field. This is important to engineers using magnetic instruments in prospecting for iron to feed Pakistan's growing steel industry.

The third section of the observatory specializes in atmospheric physics. Studies have been concentrated on measuring solar energy in West Pakistan to

determine at what points solar energy can actually be harnessed for industrial use.

The original four-man team sent into Pakistan by UNESCO has now been reduced to one. The Pakistanis have taken over the work of the other inter-The Pakistani Meteorological Service is in charge of the obnational experts. servatory. It has invested \$190,000 in buildings and equipment. It spends \$55,000 a year in annual operating expenses.

Iraq, WHO, tuberculosis control

A high incidence of tuberculosis in Iraq—which is typical of many of the underdeveloped countries—led to the establishment of a tuberculosis control project by WHO in October 1953. With the assistance of WHO, a modern tuberculosis center was built in Baghdad. At this center, diagnosis and treatment could be carried on, along with public health preventive and educational functions such as prevention and control measures; coordination of necessary health and welfare services; training of personnel; and development of a national plan for tuberculosis control through provincial centers and coordinating services.

In addition to 4 international experts (a senior adviser, a public health nurse, an X-ray technician, and a laboratory technician), WHO has also furnished the necessary equipment and supplies for such a model center including laboratory and X-ray equipment. The Government of Iraq has taken a great interest in the project. Not only did it build the center in Baghdad; it has also given substantial assistance in counterpart personnel and in materials.

The overall objective of the project has been achieved: the center has been established, and it serves also as the Government's tuberculosis bureau for the

whole country. Specific secondary achievements are as follows:

1. Training.—A trained corps of tuberculosis workers has been developed and is being continually augmented. The first group consisted of 10 doctors, 8 nurses, 8 home visitors, 4 X-ray technicians, 4 laboratory technicians, 6 registration clerks, 6 statistical clerks.

2. National plan.-A nationwide program for tuberculosis control, including staff training, has been worked out. (Means of control at the village level have

still to be developed.)

3. Takeover of vaccination program.—An earlier project, financed by UNICEF, undertook a mass campaign of vaccination with the BCG process. This has now been completed. In all, approximately 654,000 persons (out of a total population of approximately 4,900,000) were tested, and 234,000 vaccinated. In addition, training was given to 30 doctors, 38 nurse-technicians, and 2 statis-As part of the overall national control program, a permanent testing and vaccination service has been created, with three centers in the country.

4. Cooperation with private efforts.—A close relationship has been established with the local voluntary tuberculosis association. This group is being encouraged to concentrate on the social welfare aspects of tuberculosis cases

and their families.

5. Public education.—The work which has been done has stimulated consider-

able official and public interest in tuberculosis control.

WHO estimates that the termination date of this project will come in the middle of or late 1956.

Sarawak, WHO, malaria control

Results of a WHO malaria control project in Sarawak have just been published. Three test areas were established in 1952 in northern Sarawak, where the population is scattered, roads are nonexistent, and great distances need to be covered. Approximately 10,000 persons, almost all of indigenous origin, were covered by the survey.

In the first test area, DDT was used in residual spraying every 6 months. In the second, BHC (benzene hexachloride) was used every 3 months. The third area was left as a check area. After 21 months of DDT protection, the spleen rate (percentage of enlarged spleens) in children 2 to 9 years old was reduced from 51.8 percent to 25.1 percent, and the parasite rate (percentage of persons with malaria parasites in blood) from 35.6 percent to 1.6 percent. Similar results were obtained in the BHC area. During the same period of observations, spleen rates and parasite rates rose in the check area. The monthly examination of infants' blood showed that, with only two exceptions, all the infants born after the first spraying were free from malaria. The two new infections were

acquired in unprotected houses built shortly after the spraying.

The estimated cost of the DDT spraying operations was relatively high—45 cents per person per year. This was due, however, mainly to two factors: difficulties of communications (54 percent of the time was spent traveling), and the need for spraying 2 dwellings for each family—their part of the communal longhouse and their individual rice farm. It is believed that further experience may show that the surface sprayed, and hence the amount of insecticide used, can be reduced. DDT spraying every 6 months is preferable to BHC spraying every 3 months, because of the great difficulties with regard to communications and transport.

#### Iraq, FAO, soil and water

A soil technologist, provided by FAO, in addition to surveying and mapping approximately 35,000 acres, has assisted the Government of Iraq in establishing a soils laboratory. The United States bilateral program supplied the equipment for the laboratory; the Government of Iraq furnished the building under the general supervision of the FAO expert. Three Iraqi analysts assisted the expert, of whom two were awarded FAO fellowships in 1955. Between 5 and 10 Iraqi counterpart personnel have worked with the expert at various times.

A ground-water geologist supplemented the work of the soil technologist in assisting the Government to determine sites suitable for well drilling. He conducted detailed field studies in cooperation with local technicians. The Government of Iraq accepted his recommendations and began a large-scale well-drilling

program, allocating \$4.5 million to the work.

A well-drilling expert subsequently assigned to Iraq has trained a number of technicians in the use of drilling rigs purchased by the Government.

#### South Asia, FAO, farm mechanization

Many governments have undertaken large-scale farm mechanization programs. Mechanization frequently makes possible a rapid increase in food production and brings under cultivation areas of land that cannot be cultivated by primitive methods. Within the last 10 years, a striking increase in the use of tractors has occurred all over the world.

Considerable difficulties have arisen under such programs, however, because of the lack of trained men and the lack of facilities for maintenance and repair. In some cases, machines have lain idle for the want of a single small spare part and, on the average, the life of the machines have been very much shortened.

FAO assistance to these farm mechanization programs has been concerned with improved shop practices and maintenance organization, as well as with proper field operation of the machinery. Involved at all points is basic mechanical training. This necessarily makes for long-term projects—of which administrative reorganization is normally also an important part.

In some countries, many of the trainees had never previously been engaged in practical work. The first task of the international experts was, therefore, to impress upon the trainees the dignity of labor. Success in such a change of attitude has been counted one of the most important results of the projects.

Farm mechanization has been particularly important to India. In the State of Uttar Pradesh, both the State and the Federal Central Tractor Organization are undertaking a farm mechanization program on some 2 million acres. FAO assistance has been concentrated on improving the Government maintenance shops at four separate locations, and on the training of personnel. The chief aim is to train instructors who can train others and who can themselves thus form the nucleus of an efficient corps of mechanics. Results have so far been encouraging. Some 500 instructors have received thorough training from FAO experts; and one of the shops has already achieved a 300 percent increase in its own output. Not only has equipment life been prolonged, but much machinery has also been salvaged. Out of 18 tractors lying idle at 1 shop, 8 were put back into service during the latter part of 1954, at an average cost of \$500 each. At another location, maintenance shops which were virtually inactive have been reorganized under supervision of an FAO expert. These shops are now in full production of welded irrigation gates, which formerly had to be purchased abroad.

In Pakistan, in connection with a government project for the reclamation and settlement of a large arid area, an FAO expert, who began his work in 1952,

has given assistance in the reorganization of both machinery maintenance and supply. He has also advised on better use of machinery in the field. As a result, reclamation is now proceeding at a more rapid pace than originally planned. In 1953, using a loan from the International Bank, the Government purchased 200 additional units of tractors and equipment as well as a complete maintenance shop which was established at Leiah. Two FAO experts are continuing the instruction in maintenance operations and shop organization and are introducing sound methods of account-keeping. As a result of the mechanization program, 600,000 acres of reclaimed land were under crops for the first time in 1954 and 1955. In 1954, there were 800 acres of sugarcane in this area; there are now 12,000 acres.

In Burma, an FAO expert has been working with the agricultural engineering branch of the Burmese Department of Agriculture. Through his advice and assistance, a central machinery workshop has been established near Rangoon as well as four other shops at the district level. Training courses in farm machinery operation have also been instituted, for the special benefit of local dealers in farm equipment.

#### Thailand, FAO, rubber

In Thailand rubber is produced mainly by small farmers owning less than 200 acres each. Few large plantations exist. The economic position of these producers is, however, extremely vulnerable since they must depend on widely fluctuating world prices of rubber. It is therefore important that their trees should be of the highest-yielding variety and that the processing of the latex, which is carried out mainly in small cooperative factories, should produce a first-quality product capable of commanding the highest market price. An FAO rubber processing expert has been at work in the past 3 years in Southern Thailand on a program covering the introduction of higher-yielding strains of rubber trees and improvements in the processing of latex and reorganization of factories. As a result of his work, these small producers received in 1954 in most cases the top market price for their latex.

## India, FAO, hides and skins

The flaying of hides and skins and the processing of leathers is an integral part of the livestock industry in many countries, and provides an important source of cash income to the producer. Primitive methods of flaying and tanning, however, involve a considerable wastage of material and the resulting poor quality brings only the lowest market price. FAO has undertaken a number of hides and skins improvement projects with considerable success.

In India, an expert has been at work for the past 3 years, and has initiated a program for the improvement of demonstration and training centers, set up with assistance from the Ford Foundation. The values of hides and skins produced by methods introduced by the expert has increased by 30 to 40 percent over the

past 3 years, a benefit which is passed on directly to the producer.

The expert's work began with improvements in flaying and curing to obtain better prices. A demonstration center, set up near Lucknow with his advice in September 1952, is turning out some 100 trainees a year. Five similar centers have been started and 15 more are being built. Some of these centers are organized as cooperative societies in the Government's multi-purpose community projects. The project has had a wide effect on the leather trade in the State of Uttar Pradesh, and an increasing number of curers are using improved methods of tanning.

The expert is turning his attention to developing the rural tanning and shoemaking side of the industry to establish it on a sound profit-making basis in-

dependent of government subsidies.

#### Libya, FAO, sheep rearing

In arid Libya, the sheep industry provides not only meat and milk for the population, but also substantial quantities of carpet wool for export as well as for local use. The sheepmen's need of pasture competes with the need of settled farmers for cropland and pasture along the margins of the desert. To demonstrate the possibilities of improving the scanty growth in these edge-of-desert areas, where the usual effects of overgrazing are particularly pernicious, an FAO expert urged that an area of some 7,700 acres be protected from grazing and permitted to regenerate itself. Under the controlled grazing program, a remarkable improvement in forage production has taken place.

As a related project, approximately 200 Turkish rams of superior strains were imported in 1953 and 1954. Cross-breeding experiments were carried out under the supervision of an FAO expert from Australia at the agricultural station at Gasr Garibulli, with a view to improving the quality of the native Libyan sheep.

Middle east, FAO, locust control

In the Middle East, FAO is coordinating the work of some 20 countries in controlling the desert locust. Much of the local expenses are being borne by the countries themselves, but the migratory nature of this insect makes the efforts of individual nations quite ineffective at times. Under the present plan of coordination the locust control resources of the entire region, including those of the United States available to the region through bilateral arrangements, may be directed toward the control of local outbreaks in whichever country they occur. An emergency program of this type is now being conducted in Saudi Arabia and consideration is being given to the need for similar action in Ethiopia. These efforts during the past 5 years have been so successful that practically no loss of food crops from locust activity has occurred during that period.

# Formulation of UN Technical Assistance Program

CALENDAR YEAR	TECHNICAL ASSISTANCE BOARD	UN RESIDENT REPRESENTATIVE	REQUESTING GOVERNMENTS	TECHNICAL ASSISTANCE COMMITTEE	GENERAL ASSEMBLY
lst quarter	Formulates country target programs.	, 			
2nd quarter		Transmits target to government, consults with government and Specialized Agencies on program formulation.	Determines program, formulates requests, establishes priorities in consultation with Resident Representatives and Specialized Agency representatives.		
3rd quarter	Compiles total program and recommends allocations to agencies.	☐ Transmits requests ☐ to TAB.			
4th quarter				Reviews and approves programs, authorizes allocations to agencies.	Confirms allocations to agencies.  PLEDGING CONFERENCE Governments pledge funds to support recommended program

# UNITED NATIONS EXPANDED PROGRAM OF TECHNICAL ASSISTANCE Project costs by region and country

[United States dollar equivalent]

Region and country	Calendar year 1950-51	Calendar year 1952	Calendar year 1953	Calendar year 1954	Calendar year 1955	Approved program calendar year 1956
AFRICA						
Algeria		.				\$13, 74 33, 05 18, 90
Bechuanaland					\$11, 575	33,05
Belgian territories in Africa	.}	\$2, 257			7, 578 21, 660	18, 90
British East Africa			·	\$10, 922	21, 660	10,00 372,22
Ethiopia	\$139,035	237, 873	\$264, 794	251, 529	293, 833	372, 22
Federation of Rhodesia and		1	l			I
Ethiopia Federation of Rhodesia and Nyasaland		1 4, 514	2 64		8, 518	45, 42
France (nonmetropolitan terri-	ł		į.	ļ		
tories) French West Africa (Camer-				<del></del>		5,00
none)		4, 885	17, 438	16, 780	41, 588	15.04
oons) Gambia Gold Coast vory Coast		1,000	11, 100	10, 780	19, 423	15, 64 10, 73 128, 58
old Coast		21,012		28, 982	36, 110	198 58
vorv Coast		21,012		7,066	00, 110	
Cenva	1	2 030			8, 694	2.50
Liberia	87, 802	302, 697	268, 950	206, 012	8, 694 165, 062	257, 38
liberia Libya Mauritius	188, 104	654, 443	771, 960	584, 163	602, 421	2, 50 257, 38 733, 16 51, 76 35, 19
Mauritius					11, 974	51, 76
Могоссо				14, 164	49, 493	35, 18
Vigeria		4,514		8, 668	33, 593	62,05
ortuguese territories in Africa					18, 213	
Morocco Nigeria Portuguese territories in Africa Reunion Island Saint Helena Saynballes						27, 19
Parchalles		- <b></b>			962	
Seychelles					2, 675	1,20
Bierra Leone Somaliland Spanish Guinea	20.050	74 020	50, 731	18, 756	17, 819	59, 68
Inanish Guinea	29, 950	74, 832	50, 751	18, 756	46, 783 759	38, 380
Sidan		4 514		10, 029	51, 484	146, 42
Canganvika		2,014	8, 582	37, 721	83, 842	126, 500
l'unisia			22, 784	47, 258	68, 880	80, 316
Jganda					11,648	33, 134
panisa Gimea.  udan  anganyika  unisia  ganda.  anzibar					2, 214	
regional projects		33, 511	58, 424	36, 807	2, 214 145, 287	122, 338
Total	444, 891	1, 347, 082	1, 463, 727	1, 278, 896	1, 762, 088	2, 430, 530
ASIA AND THE FAR EAST						
Brunei.	7, 862	9,000	2, 133			
Burma	164, 679	430, 803	484, 879	F00 000		
			202,019	533, 262	706, 950 1	1, 041, 036
amhodia	38, 871	57, 387	40. 127	533, 262 95, 936	706, 950 180, 776	1, 041, 036 259, 679
amhodia	38, 871 190, 817	57, 387 456, 029	40. 127	95, 936 348, 246	180, 776 495, 735	259, 679 826, 228
amhodia	38, 871 190, 817	57, 387 456, 029	40, 127 545, 422 199, 749	95, 936 348, 246 257, 309	180, 776 495, 735 249, 442	259, 679 826, 228 214, 417
lambodia	38, 871 190, 817	57, 387 456, 029 136, 543 7, 335	40, 127 545, 422 199, 749 14, 423	95, 936 348, 246 257, 309 23, 884	180, 776 495, 735 249, 442 30, 644	259, 679 826, 228 214, 417
Cambodia	190, 817 	57, 387 456, 029 136, 543 7, 335 1, 045, 248	40, 127 545, 422 199, 749 14, 423 945, 696	95, 936 348, 246 257, 309 23, 884 562, 802	180, 776 495, 735 249, 442 30, 644 944, 726	259, 679 826, 220 214, 417 13, 250 2, 679, 171
Jambodia Jeylon Jihina (Taiwan) Hong Kong India	190, 817 	57, 387 456, 029 136, 543 7, 335 1, 045, 248	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542	259, 679 826, 228 214, 417 13, 250 2, 679, 171 993, 833
Ambodia  eylon  linia (Taiwan)  Hong Kong  ndia  ndonesia	190, 817 	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750	40, 127 545, 422 199, 749 14, 423 945, 696	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375	259, 679 826, 228 214, 417 13, 250 2, 679, 171 993, 833 95, 350
Jambodia Jeylon Jihina (Taiwan) Hong Kong India	190, 817 	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839	259, 676 826, 221 214, 417 13, 250 2, 679, 171 993, 835 95, 350 38, 900
ambodis eylon	190, 817 	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923 22, 109	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839 73, 592	259, 679 826, 224 214, 417 13, 256 2, 679, 171 993, 835 95, 356 38, 900 111, 269
ambodis eylon	190, 817 	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923 22, 109 32, 024	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975 41, 897 56, 256	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839 73, 592 53, 465	259, 679 826, 224 214, 417 13, 256 2, 679, 177 993, 835 95, 356 38, 900 111, 269 138, 748
Ambodis  Zeylon  Zeylon  Thina (Taiwan)  Hong Kong  India  Indonesia  Indonesia  Indonesia  Indonesia  Indonesia  Indonesia  Indonesia	190, 817 	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923 22, 109 32, 024 48, 628	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975 41, 897 56, 256 35, 686	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839 73, 592	259, 679 826, 224 214, 417 13, 256 2, 679, 177 993, 835 95, 356 38, 900 111, 269 138, 748
Ambodis  Jeylon  China (Taiwan)  Hong Kong  India  Indonesia  Apan  Aos  Jerea (South)  Aos  Jealaya  Verbal  Verberlands New Guines  Orth Borneo	190, 817 148, 058 138, 880 9, 147 7, 200 200	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923 22, 109 32, 024 48, 628	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975 41, 897 56, 256 35, 686 2, 582 33, 850	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839 73, 592 53, 465	259, 679 826, 221 214, 417 13, 250 2, 679, 171 993, 835 95, 350 38, 900 111, 266 138, 744 173, 596
Sambodis Jeylon Jeylon China (Taiwan) Chong Kong India Indonesia Apan Sorea (South) Asos Hajaya Vepal Vetherlands New Guinea Sortes Sor	190, 817 148, 058 138, 880 9, 147 7, 200 200	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923 22, 109 32, 024 48, 628	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975 41, 897 56, 256	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839 73, 592 53, 465 119, 020	259, 674 826, 224, 41, 13, 254 2, 679, 17, 993, 83; 95, 356 38, 900 111, 266 138, 744 173, 590
Ambodis Jeylon Jelina (Taiwan) Jong Kong India Indonesia Apan Jorea (South) Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jerina Jelina Jelina Jelina Jerina Jelina Jelina Jelina Jelina Jelina Jelina	190, 817 148, 058 138, 880 9, 147 7, 200 200 268, 312	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923 22, 109 32, 024 48, 628	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975 41, 897 56, 256 35, 686 2, 562 33, 850 910, 425	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210	180, 776 495, 735 249, 442 30, 644 944, 726 86, 375 32, 839 73, 592 53, 465 119, 020	259, 676 826, 222 214, 411 13, 256 2, 679, 171 993, 835 95, 356 38, 906 111, 266 138, 745 173, 596
Ambodis Jeylon Jelina (Taiwan) Jong Kong India Indonesia Apan Jorea (South) Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jelina Jerina Jelina Jelina Jelina Jerina Jelina Jelina Jelina Jelina Jelina Jelina	148, 058 138, 880 9, 147 7, 200 200 268, 312	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 53, 923 22, 109 32, 024 48, 628	40, 127 545, 422 199, 749 14, 423 945, 696 754, 132 12, 975 41, 897 56, 256 35, 686 2, 562 33, 850 910, 425	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 774 756, 210 2, 000 316, 742	180, 776 495, 735 249, 442 30, 644 944, 736 778, 542 86, 375 32, 839 73, 592 53, 465 119, 020 35, 325 929, 083 1, 706 357, 057	259, 677 826, 228 214, 417 13, 266 2, 679, 171 993, 83 95, 350 38, 90 111, 266 138, 749 173, 596 36, 681 1, 075, 712 3, 450 377, 624
Ambodis Jeylon Pelnia (Taiwan) Jong Kong India Indonesia Apan Jorea (South) Jose Jesterlands New Guinea Jorth Borneo Pakistan Apua and New Guinea Philippines Jenawak Jarawak	148, 058 138, 880 9, 147 7, 200 200 268, 312	57, 387 456, 029 136, 543 7, 335 1, 045, 248 566, 232 31, 750 53, 923 22, 109 32, 024 48, 628 31, 351 1, 041, 574	40, 127 545, 427 199, 749 14, 423 945, 696 754, 132 12, 975 56, 256 35, 686 2, 582 33, 850 910, 425 306, 475 33, 831	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210 2, 000 316, 742 26, 119	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 86, 375 32, 839 73, 592 53, 465 119, 020 35, 325 929, 033 1, 706 357, 057 24, 798	259, 677 826, 221 214, 417 13, 256 2, 679, 177 993, 835 995, 38, 900 111, 266 138, 745 173, 596 36, 681 1, 075, 712 3, 456 377, 624
Ambodis Leylon Leylon China (Taiwan) Hong Kong India Indonesia Apan Korea (South) Aos Wepal Vetherlands New Guinea North Borneo Akistan Apua and New Guinea Philippines Arawak Lingapore	148, 058 138, 880 9, 147 7, 200 200 268, 312	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 32, 024 48, 628 31, 351 1, 041, 574 363, 394 42, 630 14, 083	40, 127 545, 422 198, 749 14, 423 945, 696 754, 132 12, 975 	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210 2, 000 316, 742 26, 119	180, 776 495, 735 249, 442 30, 644 726 778, 542 86, 375 32, 839 73, 592 53, 465 119, 020 35, 325 929, 083 1, 706 357, 057 24, 798 50, 378	259, 67/ 826, 22/ 214, 41' 13, 25/ 2, 679, 17' 993, 83' 95, 35/ 38, 90/ 111, 26/ 173, 59/ 36, 681 1, 075, 712 377, 62/ 39, 06/ 47, 74f
Ambodis	190, 817 148, 058 138, 880 9, 147 7, 200 200 268, 312 63, 080 1, 179 2, 763 20, 876	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 32, 024 48, 628 31, 351 1, 041, 574 363, 394 42, 630 14, 083	40, 127 545, 422 198, 749 14, 423 945, 696 754, 132 12, 975 	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210 2, 000 316, 742 26, 119	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839 73, 592 53, 465 119, 020	259, 67; 826, 22; 214, 41; 13, 25; 2, 679, 13; 95, 35; 38, 90; 111, 26; 138, 74; 173, 59; 3, 45; 377, 62; 39, 06; 47, 74; 599, 76;
Sambodis Jewylon Jelylon Jelyl	148, 058 138, 880 9, 147 7, 200 200 268, 312	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 32, 024 48, 628 31, 351 1, 041, 574 363, 394 42, 630 14, 083	40, 127 545, 427 199, 749 14, 423 945, 696 754, 132 12, 975 56, 256 35, 686 2, 582 33, 850 910, 425 306, 475 33, 831	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210 2, 000 316, 742 26, 119 49, 105 457, 981 1, 760	180, 776 495, 735 249, 442 30, 644 726 778, 542 86, 375 32, 839 73, 592 53, 465 119, 020 35, 325 929, 083 1, 706 357, 057 24, 798 50, 378	259, 677, 826, 2214, 417, 13, 256, 22, 679, 171, 993, 835, 995, 35, 906, 111, 266, 138, 748, 173, 596, 377, 624, 39, 067, 47, 748, 599, 766, 990, 766, 990, 990, 990, 990, 990, 990, 990, 9
Sambodis Jeylon Jeylon China (Taiwan) Chong Kong India Indonesia Japan Corea (South) Jeos Melaya Nepal Netherlands New Guinea Jorth Borneo Pakistan Japua and New Guinea Philippines Jarawak Jingapore Chailand Jietnam Jamoa Jinited States Trust Territories	190, 817  148, 058 138, 880  9, 147  7, 200 200  268, 312 63, 080 1, 179 2, 763 202, 876 50, 642	57, 387 456, 029 136, 543 7, 335 1, 045, 248 566, 232 31, 750 53, 923 22, 109 32, 024 48, 628 31, 351 1, 041, 574	40, 127 545, 422 198, 749 14, 423 945, 696 754, 132 12, 975 	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210 2, 000 316, 742 26, 119	180, 776 495, 735 249, 442 30, 644 944, 736 778, 542 86, 375 32, 839 73, 592 53, 465 119, 020 35, 325 929, 083 1, 706 357, 057 24, 798 50, 378 536, 394 104, 100	259, 676 826, 222 214, 417 13, 256 2, 679, 171 993, 833 95, 385 111, 266 138, 748 173, 596 36, 681 1, 075, 712 39, 067 47, 748
ambodia eyylon eyylon china (Taiwan) cong Kong ndia ndonesia apan corea (South) aos felalya lepal etherlands New Guinea orth Borneo akistan apua and New Guinea hilippines arawak lngapore halland letnam	190, 817 148, 058 138, 880 9, 147 7, 200 200 268, 312 63, 080 1, 179 2, 763 20, 876	57, 387 456, 029 136, 543 7, 335 1, 045, 248 565, 232 31, 750 32, 024 48, 628 31, 351 1, 041, 574 363, 394 42, 630 14, 083	40, 127 545, 422 198, 749 14, 423 945, 696 754, 132 12, 975 	95, 936 348, 246 257, 309 23, 884 562, 802 590, 004 15, 844 29, 610 42, 351 44, 662 58, 791 2, 358 34, 974 756, 210 2, 000 316, 742 26, 119 49, 105 457, 981 1, 760	180, 776 495, 735 249, 442 30, 644 944, 726 778, 542 86, 375 32, 839 73, 592 53, 465 119, 020	1, 041, 035 259, 679 826, 225 214, 417 13, 250 2, 679, 171 993, 833 95, 350 38, 900 111, 269 1138, 748 173, 596 36, 681 1, 075, 712 3, 450 377, 624 47, 748 599, 760 132, 378

<sup>&</sup>lt;sup>1</sup> Southern Rhodesia. <sup>2</sup> Nyasaland.

# Project costs by region and country-Continued

[United States dollar equivalent]

				<del></del>		
Region and country	Calendar year 1950-51	Calendar year 1952	Calendar year 1953	Calendar year 1954	Calendar year 1955	Approved program calendar year 1956
LATIN AMERICA						
Alaska (United States)		<b>\$4</b> , 514			1	ļ
Alaska (United States) Argentina Barbados Bolivia		<b>V1,</b> 012			\$15, 291	\$97, 500
Barbados			\$1, 236		410, 401	l
Bolivia	\$24,977	290, 077	304, 116	\$266, 814	341, 615	383, 722
British Guiana	100, 550	495, 262 11, 907	833, 021 32, 319	366, 025 21, 486	429, 070 21, 088	458, 956
British Honduras		11, 001	02, 018	21, 400	7, 021	29, 300
Brazil British Guiana British Honduras British West Indies					18, 954	50, 448
ChileColombia	143, 488	255, 385 232, 712 186, 752 24, 306	222, 150 163, 746 126, 761	251, 676	407, 027	547, 470
Costa Rica	138, 633 44, 821	186 759	103,740	209, 439	341, 507	386, 934 187, 563
Cuba	4. 632	24, 306	13, 586	115, 461 24, 007	114, 529 13, 750	187, 303
Dominican Republic		88, 984	52,000	43, 612	1 52,696	51, 904
Ecuador.	102, 938	526, 490	348, 440	268, 993	298, 114	345, 641 196, 764
El Salvador	123, 041	304, 099	201, 726	150, 613	158, 599	196, 764 3, 316
French Guiana Guadeloupe						10,000
Guatemala Haiti	35, 247	174, 526	126, 551	92, 236	191, 488	270, 350
Haiti	80, 638	272, 278	168, 488	152, 914	310, 243	248, 633
Monduras	38, 011 2, 193	57, 407	67, 375 57, 979	59, 329 19, 168	125, 909 64, 580	243, 453
Jamaica Leeward Islands Mexico	2, 190	52, 148 2, 257	l	l	l	76, 830 3, 500
Mexico.	129, 604	2, 257 487, 900 34, 700 2, 257	184, 305 37, 836	177, 181 78, 403	309, 376 129, 434	3, 500 358, 519 224, 700
Nicaragua	933	34, 700	37, 836	78, 403	129, 434	224, 700
Pacific Island (United States)	4,611	2, 257 <b>62</b> , 030	140, 045		105, 811	109, 134
Panama Paraguay Panama	F5 147	228, 961	228, 743	112, 050 198, 733	298, 663	372, 325
Peru	62, 688	165, 843	198, 130	141, 337	66, 889	141, 888
Puerto Rico (United States)		4, 514				
St. Lucia	890	228 3, 136			9, 333	
Peru Puerto Rico (United States) St. Lucia Surinam Trinidad		4, 767		9, 184	30, 324	17, 500
Curação				l	5, 179	
Curacao Uruguay Venezuela Virgin Islands (United States)		22, 971	14, 799	31, 751	143,608	156, 468
Venezuela	3, 314	4,047	23, 138	105, 170	176, 304	292, 507
Regional projects	79, 203	4, 514 910, 790	1, 069, 860	1, 025, 202	1, 295, 982	1, 172, 594
Total		\$4, 915, 762	\$4, 616, 350	\$3, 920, 784	\$5, 482, 384	\$6, 437, 919
	=====				***	
Austria	163	80, 421	45, 899	35, 533	49, 674	20,000
Cyprus	6, 523	18, 939	3, 647	3,500	18, 813	20,000 42,706
Finland	10, 820	190, 431	62, 003	27, 147	39, 182	I 18.650
Greece	21, 592	213, 056	98, 424	62, 268 4, 417	112, 149	160, 672 7, 820
Iceland	4, 359 2, 827	44, 880 12, 948	42, 736 47, 833	41, 951	1, 886	7,020
Luxembourg	3, 905	5, 759	122			
Malta		1,520			2, 744	95, 000
Luxembourg Malta Portrail Spain	2, 972	6,415	1, 039 19, 661	322 10, 853	14, 894	19, 250
Spain:		18, 802 11, 542	7, 813	10, 000	17,087	
Turkey	61, 383	277, 513	421, 266	531, 954	567, 862	591, 265
Yugoslavia	49, 374	1, 053, 687	673, 130	633, 242	791, 859	683, 535
Trieste		4, 176	98, 867	148, 453	66, 456	91,000
Total	163, 918	1, 940, 089	1, 522, 440	1, 499, 640	1, 665, 519	1,729,898
MIDDLE EAST						
A folkomistan	168, 607	587, 108	408, 654	319, 457	473, 397	701, 364
Afghanistan	15, 166	275, 560	218. 522	458, 586	473, 397 791, 261 991, 709	891, 196
Iran	233, 866	1, 153, 536	1, 043, 221	458, 586 793, 210	991, 709	838, 484
Iraq	81, 922	547, 869 601, 252	218, 522 1, 043, 221 432, 195 450, 742	321, 786	444, 206 345, 713	486, 922 401, 366
Egypt Iran Iraq Iraq Iraq Iraq Iraq Iraq Iraq Iraq	90, 272	601, 252 99, 619	450, 742 164, 846	246, 332 219, 473	334, 034	383, 341
Lebanon	22, 747 94, 423	225, 971	153, 573	95, 595	162, 553	212, 472
AFOUGHUL		,	220, 010	,	,	•

# Project costs by region and country-Continued

[United States dollar equivalent]

Region and country	Calendar year 1950-51	Calendar year 1952	Calendar year 1953	Calendar year 1954	Calendar year 1955	Approved program calendar year 1956
Saudi Arabia Syria Yémen Regional projects	\$56, 260 108, 754 3, 457 66, 478	\$160, 072 284, 705 439, 429	\$197, 819 275, 294 4, 441 58, 035	\$108, 389 299, 834 17, 976 371, 643	\$103, 193 402, 487 46, 625 470, 808	\$135, 020 612, 980 152, 517 526, 418
Total Interregional projects Other project costs	941, 952 28, 036 319, 542	4, 375, 121 117, 229 171, 310	3, 407, 342 1, 333, 931	3, 252, 281 509, 165	4, 565, 986 838, 892 469, 152	5, 342, 080 547, 900
Total project costs	4, 515, 145 952, 393 789, 233	18, 800, 543 2, 069, 591 1, 622, 479	17, 818, 147 1, 967, 300 1, 725, 475	15, 111, 226 1, 723, 932 1, 352, 273	21, 245, 726 1, 827, 815 1, 383, 510	25, 960, 400 2, 163, 000 1, 611, 000
cluding resident representa- tives)	179, 480	475, 516	1, 299, 500	1, 277, 311	1, 356, 082	1, 642, 000
Total obligations	6, 436, 251	22, 968, 129	22, 810, 422	19, 464, 742	25, 813, 133	31, 376, 400

Countries and territories receiving technical assistance under United Nations expanded program of technical assistance, calendar year 1956, and/or United States technical cooperation or exchange programs, fiscal year 1956

	United States technical cooperation or technical exchange program fiscal year 1956	United Nations expanded program of technical assistance calendar year 1956		United States technical cooperation or technical exchange program fiscal year 1956	United Nations expanded program of technical assistance calendar year 1956
2) Near East and Africa:			Malaya, Federation of		X
Algeria Bechuanaland		X	Nepal	x	X X X X
Bechuanaland		X	North Borneo	X	X
Belgian territories in		v	Pakistan Papua and New	A.	<b>♦</b>
Africa British East Africa Kenya Tanganyika Uganda		X X X X X	Guinea		
Kenva		$\tilde{\mathbf{x}}$	Philippines	X	X
Tanganyika		X	Sarawak	<b>-</b>	X
Uganda	X	X	Singapore		X
Cameroons (French		- 1	Thailand	XX	X X X X
West Africa		X	Vietnam (c) Latin America:	X.	X
Central African Feder- ation	\ <b>y</b>	x (	Argentina	!	v
Egypt		X X X	Bolivia	X	X X X X
Ethiopia	$\tilde{\mathbf{x}}$	$\hat{\mathbf{x}}$	Brazil	X	$\overline{\mathbf{x}}$
France (nonmetropol-			Brazil British West Indies		X
itan territories)		X	British Guiana	<u> </u>	X
Gambia		X	British Honduras	X X X	<u>-</u> x
Gold Coast	<del>-</del> +	X.	Jamaica Barbados, Wind-	A :	•
Greece	1 🕏 1	<b>☆</b>	ward, and Leeward		
Iraq	Ŷ	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX	Islands	x	x
Israel	Ŷ	Χ	Chile	$\ddot{\mathbf{x}}$	X X X X
Jordan		$\bar{\mathbf{x}}$	Colombia.	X	X
Lebanon	X	X	Costa Rica	X	X
Liberia	X	X	Cuba	Ĭ Ž	
Libya	X	X	Dominican Republic	∤ <del>Ž</del>	l∯
Mauritius		X	EcuadorEl Salvador	X X X X X	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
Morocco (French Zone) Nigeria	<del>v</del>	<b>₩</b>	French Guiana		Ϋ́
Nigeria		x	Guadeloupe		X
Saudi Arabia		$\hat{\mathbf{x}}$	Guatemala		X
Sevehelles	1	$\hat{\mathbf{x}}$	Haitı	X	X
		X	Honduras	! <u>X</u>	X
Somaniand (British)		<u>X</u>	Mexico	) <del>&amp;</del>	) <del>\$</del>
Somaliland (Italian)	X	X	Nicaragua	X X X X X X X	1 ♀
Sudan		<b>2</b>	Paraguay	₹ ÷	Ŷ
Syria		÷	Peru	Î	Ϊ́Х
Tunisia	x	Ŷ	Surinam	X	
Vamon	1	$\hat{\mathbf{x}}$	Trinidad		X
Turkey	1	ì	Uruguay		X X X
Afghanistan	X	X X X	Venezuela	Į X	X
Burma		X	(d) Europe:		- v
Cambodia	X	X	Austria Cyprus		1 🕏
		*	Finland		X X X X
Ceylon China (Taiwan) Hong Kong	X	[	France	X	$\mathbf{\bar{x}}$
Unina (Taiwan)		₹	Iceland	X X X	X
India	×	i 🕏	Italy	X	X
Indonesia	1 🕏	l <del>x</del>	Joint control areas		
Japan	l 🛣	i <del>x</del>	Malta		· X
Korea		X X X X X	Spain	) X	X X X
Laos	X	l X	Yugoslavia	A	_ A

Apr. 18, 1956.

# United Nations Expanded Program of Technical Assistance

### SOVIET BLOC CONTRIBUTIONS

The U. S. S. R. did not contribute to the United Nations Expanded Program of Technical Assistance until the summer of 1953. At that time, it offered 4 million rubles, equivalent to approximately \$1 million, to the United Nations program, but attached conditions which made its pledge unacceptable. These conditions were later removed and in March 1954, the first U. S. S. R. contribution was accepted. The Soviets have since contributed a similar amount to the program

for 1954, 1955, and have pledged the same amount for 1956. Their satellites are likewise now contributing. A total of \$4,525,000 in contributions and pledges has been made available to the program from all ruble sources. In addition, Czechoslovakia has contributed \$69,444 a year since 1954, or a total of \$208,332. Poland has contributed \$75,000 each year since 1953, a total of \$300,000. Bulgaria and Rumania pledged approximately \$15,000 each for the first time for 1956. This makes a grand total of the equivalent of \$5,064,705 contributed or pledged to the program since its inception from all Soviet bloc sources.

Like the contributions of some other countries, the Soviet bloc contributions to the United Nations technical assistance program are "nonconvertible" except as shown below. There are three ways in which these contributions can be used: Salaries of experts from the Soviet bloc countries; training grants for United Nations fellowships within these countries; and supplies and equipment purchased in these countries. Nonconvertible contributions are permissible

under the rules of the program.

Experts employed in the program are compensated in the currency of their nationality or place of residence when recruited, except for a portion of the salary and allowances which are paid in the currency of the country where the expert is serving. Thus, American experts receive their basic salaries in dollars, British experts in pounds, and Soviet experts in rubles. The ruble contribution may be converted to other currencies for purposes of defraying travel costs of experts and fellows, allowances and expenses of experts and transportation costs of equipment. Otherwise, the ruble contribution may not be converted to other currencies. No payments would be made to Soviet bloc experts from the United States contribution to the United Nations technical-assistance program.

Out of the \$4,525,000 available in rubles, \$202,715 was obligated in 1955. This covered the cost of 2 coal experts in Burma, 4 fellowships, 2 study tours, and

equipment costing \$56,250.

An additional amount of \$1,133,516 in equipment was ordered in 1955, but was

not delivered prior to December 31, 1955.

For 1956, projects have been approved which will utilize \$3,159,500 in rubles. These projects include \$1,821,500 in equipment, 30 fellowships, 6 study tours, and 41 experts. Of the 41 experts, 30 are planned for projects in India, of which 18 are to be employed at the Higher Institute of Technology in Bombay. Six experts are planned to work with the Indian Statistical Institute and one expert each on glass molds, power production, survey techniques, and chemical and allied products. Two X-ray technicians are also planned.

Other projects utilizing Soviet experts are planned in Afghanistan (2 male

nurse tutors and 1 X-ray technician), and in Burma (4 experts in mineral resources development and 1 expert each in water resources development and building materials research). Two experts are also planned in connection with

a regional study tour for Asia and the Far East on buildings materials.

Of the total Czechoslovakian contribution of \$208,332, \$69,627 was obligated for equipment in 1955; orders for equipment not delivered prior to December 31, 1955, totaled \$86,715; and projects totaling \$50,500 have been approved for

1956. These include one study tour and equipment valued at \$25,500.

Of the total Polish contribution of \$300,000, \$19,955 was obligated for equipment in 1955; orders for equipment not delivered prior to December 31, 1955, totaled \$220,275; and projects totaling \$48,500 have been approved for 1956. This amount is entirely for equipment.

Under the rules and procedures of the United Nations technical assistance program, no experts can be sent to a country or training grants awarded or

equipment provided without the consent of the recipient country.

#### Utilization of Soviet bloc contributions

# [Expressed in United States dollars]

# AVAILABLE ------ \$4,000,000

Total rubles	4, 525, 000
Czechoslovakia, 1954–56	208, 332
Poland. 1953-56	200, 000
Bulgaria, 1956	14, 706
Rumania, 1956	16 667

Total available\_\_\_\_\_ 5, 064, 705

#### UTILIZATION

	Obligated 1955	Forward con- tractual com- mitments 1 as of Dec. 31, 1955	1956 approved program	Total
Rubles Czechoslovakia Poland Total utilization	\$202, 715	\$1, 133, 516	\$3, 159, 500	\$4, 495, 731
	69, 627	86, 715	50, 500	206, 842
	19, 955	220, 275	48, 500	288, 730
	292, 297	1, 440, 506	3, 258, 500	4, 991, 303

<sup>&</sup>lt;sup>1</sup> These are orders placed in 1955 for equipment which had not been delivered by December 31, 1955. They will be recorded as 1956 obligations if delivery is made in 1956.

Mr. Phillips. Unless there are additional questions, I could proceed to the children's fund.

# USE OF SOVIET RUBLE CONTRIBUTION FOR SOVIET TECHNICIANS

Senator SMITH. Let me ask you just one question: Any money contributed by Russia is in rubles, and cannot be exchanged for other cur-Therefore, if rubles are to be used they have to be spent for Russian technical advisers.

That means through the contribution Russia makes, she can get her agents, of one kind or another, as technical advisers, into any country that wants to use them; is that correct?

Mr. Phillips. I am not certain I understood your question, but it

is true that Russians contribute only in rubles.

Senator SMITH. If contributions are made only in rubles and cannot be exchanged for other money then the only people who can be employed with rubles are Russians.

We ran into that problem last year and discussed it at some length. It meant that any Russian increase in their donation was not quite as generous as it looked, because it was part of their plan to get these people into these countries.

Mr. Phillips. There is no doubt about it that the rubles can be used

for payment by the Russians of their own experts.

As a practical matter, at present there are 5 Russian experts out of Of course, this question as to whether or not a country a total of 1,300. wishes to receive an expert from any other country is a matter for the receiving country to decide.

We also know that the Russians send experts under their bilateral

program, over which we have no control.

Senator Smith. I was just noting the fact. I do not see how you can deal with it, but I am noting the fact that the Russian contribution almost has to be handled that way, because nobody else wants the rubles.

Mr. Phillips. They can also, of course, purchase Russian equipment

and material with that.

# DESIGNATION OF UNITED NATIONS PROGRAM

Senator Green. In this chart or series of charts entitled "United Nations Expanded Program," what does the "Expanded" mean?

Mr. Phillips. Originally, before 1950, the only technical assistance

carried on through the United Nations was carried on under the regular

budgets of the specialized agencies—the FAO, ILO, UNESCO, and

so forth.

In 1949, the United States took the leadership in efforts to expand the United Nations technical assistance activities. It was as a result of this effort to expand the United Nations technical assistance activities that the term "expanded program" was first adopted. It was then, Senator, that the central fund, into which voluntary contributions are made, was established.

It has since become known as the expanded program of technical

assistance.

Senator Green. It has not changed since?

Mr. Phillips. It has not changed since it was set up in 1950 or 1951, except some modifications in administrative procedures.

Senator Green. Could a note be put under the year when the change

was made which would indicate the basis for the figures?

Mr. Phillips. No, because prior to 1950 when the expanded program was set up, there was no basis, there was no program. The only program which existed prior to that time occurred under the regular budgets of the specialized agencies.

There was no separate accounting at all. Each country paid its

assessed share of the budgets of these specialized agencies.

Senator Green. Then this table here which is headed "United Nations expanded program" would mean just the same if it were headed "Program." There is no expansion on this table?

Mr. Phillips. This is perhaps a poor term. It is all an expanded

program. It has had that title since its inception in 1950.

Senator Green. Thank you.

# AMOUNT REQUESTED FOR CHILDREN'S FUND (UNICEF)

Mr. Phillips. I might say a word or two about the children's fund,

unless the committee has further questions on this program.

We have here with us today Dr. Martha Eliot, the head of the children's bureau, and she will be available to answer any detailed questions on the children's fund.

I would like to say a few words about it; and if the committee has questions it would like to direct to Dr. Eliot, she will be glad to answer

them.

Senator SMITH. May I ask you one preliminary question? You are requesting \$10 million for the children's fund.

Mr. Phulips. Yes, sir.

Senator SMITH. Is that the amount asked for by Mr. Pate, the director of UNICEF?

Mr. Phillips. This is the amount which would represent 55 percent, of the total contributions. Now, I am not certain that this is the amount Dr. Pate requested, and I would be glad to have Dr. Eliot—would you like to answer that question, Dr. Eliot, as to whether that was the amount?

Senator Green. Before you answer that, I would like to ask you this. Why are the refugee fund, children's fund, and the United Nations technical assistance, treated separately from all the other aid programs combined?

Mr. Phillips. We have three separate programs, and each has a separate appropriation: the United States Expanded Program of

Technical Assistance, the United Nations Children's Fund, and the United Nations Refugee Fund. Each of them deals with totally separate activities. Each was set up under a different General Assembly resolution at different times. I think the children's fund was set up when was it. Dr. Eliot?

Dr. Ellor. In 1946, December.

Senator Green. Do the programs have different officials and dif-

ferent personnel?

Mr. Phillips. Yes, sir. We are asking for \$10 million as the United States contribution to the children's fund for calendar year 1957.

This year, 1956, marks the 10th anniversary of UNICEF. It originally was established, you may recall, as an emergency operation to help meet the terrible conditions of hunger and want among children

in Europe following the end of World War II.

Since that time, UNICEF has devoted practically its entire resources to assisting the less advanced countries in Asia, Africa, and Latin America, in the development of permanent child health and welfare services, and in the control and eradication of debilitating diseases.

# GROWING SUPPORT FOR UNICEF

Despite the fact that UNICEF dropped its emergency character several years ago, support for the program has grown steadily, both in the number of nations contributing and in the amounts pledged.

For example, in 1951, 35 countries contributed \$10,400,000. By comparison, for 1955, 71 countries pledged approximately \$15,500,000,

which is good progress.

I think the United States can be proud of the leading role that it has played in the establishment of UNICEF, and of the very gen-

erous assistance it has given to the fund since its inception.

Other governments have increased their contributions to the program by 122 percent between 1952 and 1955. As a result, the United States has been able to reduce the percentage of its contribution from a maximum of 72 percent in 1952 and prior years, to 571/2 percent in 1956.

# DECREASING PERCENTAGE OF UNITED STATES CONTRIBUTIONS

Senator GREEN. Is our objective to reduce it still further?

Mr. Phillips. I think it might be said the same conditions apply to the children's fund that I mentioned with respect to technical assistance: To decrease gradually the proportionate share of the United States contribution, while at the same time maintaining an expansion, a gradual expansion, of the program.

It is a question of timing, of not moving too rapidly so as to upset the good that has been accomplished, but I think very notable progress has been made with the children's fund, as with technical assistance,

in reducing our share.

I would also say that 571/2 percent is certainly no floor. This again is a question of doing the thing gradually, not precipitously upsetting

the good work of the program.

Senator SMITH. Is it not true, also, that if you count in the amount of money contributed by the countries whose children are benefitedwhich has been substantial—the United States percentage is relatively small in the overall picture?

Mr. Phillips. Twenty-two percent if you include these local costs,

that is quite true.

Senator Knowland. Of course, there is one additional factor, I imagine, if you want to get an overall picture. We all recognize the very good work that is being done, but I think that a substantial amount of commodities, particularly food, has perhaps been supplied by the Department of Agriculture, in the feeding program, the milk programs, and so forth.

Mr. Phillips. Yes.

Senator Green. Dr. Eliot, are we going to hear from you?

Mr. Phillips. This is Dr. Eliot, who is available to answer any questions. As you know, she is the outstanding expert in the country on these questions.

Senator Green. I would like to have you tell us what you think we

ought to know.

Dr. Eliot. I would be very much interested to have you be aware of the very large number of children served through these programs.

Senator Knowland has just referred to the table that is attached to the statement that has been submitted, showing that some 31 million children were benefited in 1955 through the work of this program.

### MASS FEEDING PROGRAMS

I would like to remind the committee of the type of work that is

done. The work falls under several general headings.

First, what is called by the children's fund mass health programs. Under that there are the programs for the control of tuberculosis among children through the development, over the last 8 years of the BCG campaigns of vaccination against tuberculosis.

This program has gone forward in many countries in what I believe

is a very effective way.

#### YAWS PROGRAM

The children's fund has also initiated, with the technical help of the World Health Organization, programs of treating that disease which is very common in the tropics, called yaws, a spirochetal disease which affects children in particular, and which children carry on into adult life if it is not treated when they are young.

It is a crippling disease, and a disease which is cured with a single dose of penicillin in most cases. Occasionally two doses are necessary.

But if the child is seen and treated when the disease is active, it can be cured.

These programs are going forward now in some 15 or 16 countries, I believe. And many, literally many hundreds of thousands of children have been treated.

You take the countries of Thailand or Indonesia where these programs have been in operation for 4 or 5 years, the number of children that have been tested is going up into the millions and several millions have been treated for the disease.

Senator Smith. You have organized clinics for that?

Dr. Eliot. They have traveling clinics, I think we should call them. The international contribution is in terms of experts which the World Health Organization puts in; a small team, it may be 2 or 3 people.

The governments themselves organize the teams of local workers

who work under the direction of the experts.

The greatest cost of the program is in paying these local workers,

and organizing the program in the villages of these countries.

The countries pay these workers for their time. They are part of the country's contribution. It is their program, helped by the World

Health Organization and the children's fund.

I have visited with these clinics, myself, out in the rural villages. The clinic will be held in a shed or a small shelter of some sort where the doctor who comes with the team, and a nurse, and a serologist who does the testing of blood for special studies, treat these children.

The mothers and children come in from the highways and the byways around the village, and there the children are examined for the disease. If they are found to have it, they are treated immediately.

## SUCCESS OF YAWS CONTROL IN HAITI

This same process has gone forward in the Island of Haiti. In Haiti some 4 years ago, I believe at least 10 or 12 percent of all children had this disease; in some of the areas of the island it went as high as 50 percent of the inhabitants of a village or a small area.

At first treatment was given only to those who were found to have the disease. They soon found that there were hidden cases that didn't

come out and then the children would be reinfected.

So they changed their technique and they treated everyone. Now if you go to the Island of Haiti you will find—and this has been done in surveys-that not more than one-half of 1 percent of the population except in a very few pockets have this disease.

It has been a very remarkable result of concentrated effort on the part of these teams of local workers guided by the experts who had

been sent there by WHO.

Now, the contribution of the children's-

# TERMINOLOGY EXPLAINED

Senator GREEN. May I interrupt a minute. You used different terms that I do not know whether I understand the differentiation. The terms are: children vaccinated, children and mothers protected, children and mothers treated, children treated. I wonder if you could explain what those terms are, and then we could understand the table better.

Dr. Eliot. I will go back to the tuberculosis program. We know that when a child is tested, you can learn whether that child is infected with tuberculosis or has not been infected in any way. This is what is called the tuberculin test. It tells us whether a child has already been infected with tuberculosis.

The first examination must be to find out how many children should be given this vaccination to protect them against tuberculosis, and so an initial test must be made of all children who come to the clinic.

Then when they find those who have negative response, those are the children who must be vaccinated so as to protect them.

we vaccinate a child against smallpox, so we know that there is this vaccine against tuberculosis, which, in the countries that have a great deal of tuberculosis, like some of the tropical countries and many of the countries in Europe following the war, has been found to be effective in limiting the spread of tuberculosis among children.

Recently, studies have been made in Great Britain, carefully controlled studies, which demonstrate that this vaccination against tuberculosis is effective in that country, and we assume that it is effective in the other countries where these tests and vaccinations are made.

This program has been carried forward by the World Health Organization and the children's fund together, in many countries now, with great success in terms of the number of children who have been tested and the number of children who have then been vaccinated.

After the child is vaccinated, we use the term "protected," because we believe that that child is at least partially protected against tuber-

culosis.

Senator Green. Then your use of the terms "vaccinated" and "protected" means the same thing in this table?

Dr. Eliot. Yes, I think that that would be true.

Senator Green. Why are they given separate figures, such as number of antituberculosis children vaccinated, 16 million, and children

and mothers protected, 6 million?

Dr. Eliot. Mr. Senator, this number of 16 million is the number of children who are actually vaccinated. It does not give the number of children who were tested in advance to find out whether they should be vaccinated.

Senator Green. And they did not need vaccination?

Dr. Eliot. Did not need it, exactly.

Senator Green. Why are they protected?

Dr. Ellot. They are protected because they already have had a slight infection which does protect these children automatically when they are exposed.

Senator Knowland. But you would not have found out that they did not need vaccination if they had not taken the test to determine it.

Dr. Eliot. That is right. There was a large group examined and it was found that many did not need the vaccination and they are not listed here.

Senator Green. Why were the mothers included in the second class and not in the first?

### MALARIA CONTROL PROCESS

Dr. Eliot. Let me go to the malaria campaign, where the word "protected" is used.

Senator Green. All right.

Dr. Eliot. The antimalaria campaign is quite a different type of

campaign.

As you may know, we now have learned that if a house in which a family is living in a malarious area is sprayed with DDT, the walls of the sleeping quarters are sprayed with DDT, when the Anopheles mosquito comes into that house or hut in the village carrying with it the malarial parasite in its blood, and then bites the sleeper in this house, then this sleeper may get malaria.

As you know, the disease goes from man to the mosquito and back to man.

Now, that mosquito, after he has bitten this human being, is very apt, in fact almost always lights on the wall of the house, the hut. If that wall has been sprayed with DDT, that mosquito is poisoned and dies.

Or if a mosquito comes in and bites the person in this household who now has malaria, then that mosquito which now is infected also

lights on the wall of that same house and dies.

The whole process of the control of malaria is an effort to break this chain, this cycle through which the malarial parasite goes, first in the human being and then in the mosquito, and then the mosquito takes it back again to another human being.

If you can kill the mosquito at any point there, you break this chain; and if that chain is broken effectively over a period of time, then the individuals in that community no longer carry the malaria

parasites in their blood.

So the task that is before us is to spray the houses where malaria is in existence, so that during the night when people are exposed to these mosquitoes the process of breaking this chain of the parasite between man and the mosquito takes place by killing the mosquitoes.

This process involves spraying these houses with DDT throughout a village, throughout many villages, throughout a whole area of a country. This is what is going forward in India, Burma, Thailand, Indonesia, in the Eastern Mediterranean, and Latin American countries.

We ourselves have done it in this country; we have cleaned malaria

out of the United States with this process.

We can clean it out of other countries. In some countries it will be

hard; others it will be easier.

Senator Green. After this is complete, you claim that all those children and mothers have been protected?

Dr. Elior. That is correct.

Senator Green. You count up populations?

Dr. Ellor. They know the populations of these areas into which they go.

Senator Green. Do you count only mothers in the area?

Dr. Ellor. The numbers of people they report, the numbers of people that are protected.

## TERMINOLOGY QUESTIONED

Senator Green. Can't the fathers have malaria?

Dr. Ellor. The fathers have it, too, of course, but, you see, the money for the children's fund is given for mothers and children.

Senator Green. I think you ought to say "children and parents."

Dr. Ellor. Fortunately, if the father is sleeping in the house, he gets protected too, Senator Green. It does protect the whole population.

Senator GREEN. Why do you say "children and mothers protected"? Why don't you say "human beings protected"? We are all human beings, are we not?

Dr. Eliot. You see, sometimes the questions are put to the children's fund saying, "How much of this money that the various countries are

contributing to benefit children is benefiting total population?" In controlling many of these diseases you cannot benefit children without benefiting the total population, and you must do the whole thing.

Therefore, the children's fund, though they could have reported the total population, they like to report the number of mothers and children, because that is the group in the population for which the money is appropriated.

Senator Green. But don't you really think that since you are dealing with scientific subjects, you ought to be more exact and say

"human beings protected"?

Dr. Ellor. I think that would be good. We would have to increase the figure. The figure would be higher if we included all the men in the population.

Senator Smith. It would not cost any more, either.

Dr. Eliot. It costs the same.

Senator Green. I think it ought to be number of beneficiaries. Under yaws, is the heading, "children and mothers not protected, but treated." What is the distinction?

Dr. Ellor. This is a question of the people who have the disease which must be treated. This is not a process of protection, but actually curing a disease, so another word is used.

### COORDINATION OF UNICEF AND WHO PROGRAMS

Senator Knowland. Well, actually, Doctor, of course, you have been dealing with the children's fund here, but isn't there comparable work which does benefit everyone being carried on by other organizations, like the World Health Organization?

Dr. Elior. I would like to explain, in relation to that point, that the children's fund and the World Health Organization work very closely together. The children's fund provides the supplies. The World Health Organization provides the technical known how.

World Health Organization provides the technical know-how.

Therefore, when a project, an antimalaria project, is started, as for instance in Mexico, to clean the malaria out of Mexico, the children's fund pays for the DDT, for the sprayers, for the vehicles that carry the people out into the country, all of the supplies that go into this program. WHO puts in all the know-how.

Therefore, this type of campaign, is a combined effort of the two organizations. And this combined work, in my opinion—I was telling Mr. Phillips just before the hearing started—the combined work goes

forward, in my opinion, more and more effectively.

I have just returned from Geneva, from a meeting of what is known as the joint committee on health policy, a committee of people from the executive board of WHO and the executive board of the children's fund. It was set up some years ago so that the policies of the 2 organizations could be developed effectively together, and so that the administrations of the 2 organizations know the directions in which they are to go.

This is a very good and effective planning type of work. Though I am the representative of this Government on the UNICEF executive board, it was as a member of the board, representing UNICEF that I went to that meeting. I was not there as the representative of the

. .

United States.

I think the work does go forward well.

Senator Green. Excuse the interruption, but I wanted to know what

we were talking about. It is always very helpful.

Mr. PHILLIPS. I thought it might be interesting and useful to note that the request for funds for the next calendar year which are being requested here today will represent 55 percent of total government contributions to the UNICEF central fund.

This year, calendar year 1956, the United States contribution represents 57½ percent, but the amount being requested for next year will

represent a reduction of 2½ percent.

Senator Knowland. Do we have the table for the children's fund as

we do for technical assistance, country by country?

Mr. Phillips. Yes; Senator, we have it right here. I was about to submit it.

(The table referred to is as follows:)

# United Nations Children's Fund

# Summary of allocations by geographic area through December 1955

[In United States dollar equivalents, in units of \$1,000]

	1947-50		195	1-53	19	54	19	55	Total
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
AREA ASSISTANCE								-	
Africa. Asia Sastern Mediterranean Surope Latin America	\$379 11, 717 11, 471 86, 120 3, 412	0.4 10.4 10.1 76.1 3.0	\$1, 480 14, 688 8, 369 3, 595 5, 280	4.4 44.0 25.0 10.8 15.8	\$1, 582 6, 186 1, 879 952 2, 912	11.7 45.8 13.9 7.0 21.6	\$2,073 4,025 947 376 3,878	18. 4 35. 6 8. 4 3. 3 34. 3	\$5, 514 36, 616 22, 666 91, 04: 15, 48
Subtotal Programs benefiting more than one area	113, 099 1, 597	100.0	33, 412 989	100.0	13, 511 315	100.0	11, 299 300	100.0	171, 32 3, 20
Total, area assistance	114, 696		34, 401		13, 826		11, 599		174, 52
OTHER									
reightnsurance reserve	200				(1)		(3)		18, 83 20
Administrative and operational services	8, 214								21, 20
Total, other	22, 033		12, 905	<u></u>	2, 498		2, 802		40, 23
Total allocations	136, 729		47, 306		16, 324		14, 401		214, 76

<sup>&</sup>lt;sup>1</sup> Freight allocation amounting to \$2,749,000 is included in the respective area aid figures. <sup>3</sup> Freight allocation amounting to \$2,304,000 is included in the respective area aid figures.

# Government contributions by years

# [In United States dollar equivalent]

Country	1947-49	1950	1951	1952	1953	1954	1955	1956	Total
fghanistan			\$6,000		\$8,000		\$12,000	\$6,000	\$32
ntigua			40,000		40,000		117	117	40.
ustralia		\$560,000	560,000	\$452, 464	224,000	\$450, 240	566, 720		12, 702
ustria		9, 977	35, 189		23, 554	19, 231	30, 769		150
elgium		26, 455	00,100			100,000	64, 738	210,000	411
olivia		, 200	10,000	10,000		10,000	15,000	30,000	75
azil		91,644	86, 253	161, 725	161, 725	200, 089	180, 505	324, 910	1, 206
ritish Guiana		,	,	,			5,000	,	5, -05
runei				49,000		8, 187	0,000		57
ulgaria	6,017			20,000		0, 20.			6
urma.	3,011		50, 400	56,000	56,000	112,000	56,000		330
ambodia	i		00, 100		1,000	3,000	20,000		4
anada	6, 195, 868	626, 909	470,000	510, 204	507, 614	515, 464	507, 574	650,000	9, 983
ylon	0,100,000		10,000	2, 500	7, 497	7, 510	14, 860	14, 726	5, 557
nile			5,000	48, 764	92, 213	37,002	62, 998	55,000	300
hina (Taiwan)			25, 000	,	,		24, 704		49
olombia			16,752		25, 606		107, 200	302, 667	452
osta Rica		10,000					20,000		50
uba		15,000			,		,,		15
zechoslovakia	1, 100, 000	,					34, 722		1, 134
enmark	416, 740			28, 960	57, 920	50, 680	50, 680	72, 400	677
ominican Republic	120,000	150,000			50, 000	20,000	20,000		360
cuador		6, 664		1,000	6, 313	4, 834	14, 625	7, 360	40
gypt			94, 380	330		43, 050	110, 495		248
l Salvador				20,000				20,000	40
thiopia							8,000	8,000	16
inland		32, 900				6, 087	21, 739	21, 739	129
rance		1,000,000			500,000	500,000	785, 714	785, 714	5, 143,
ermany		119,048		119, 048	47, 619	190, 477	190, 476	238, 095	904
reece	10,000	34, 267		26,000	26,000	18, 200	26, 555	18,000	159
renada							1,750		1.
uatemala		10,000	623				50, 550	20,000	81,
aiti		4,000	4,000		10,000	10,000	10, 000		38,
onduras				20,000	20,000		58, 308		98.
ong Kong						3, 500	3, 500		7.
ungary	18, 677	4, 686							23.
celand		45, 000	13, 568		3,094		9, 208		149,
ndia		21,000	105,000	252,000	315,000	315, 000	336, 000		1.404.

# Government contributions by years—Continued

Country	1947-49	1950	1951	1952	1953	1954	1955	1956	Total
Indonesia		\$100,000	\$200,000		\$100,000	\$100,000	\$110,000		\$610,000
Iran		4, 059				5,000	100,000	\$200,000	309, 059
Iraq		14,000	14,000	\$14,000	56,000	21,000	63, 000	56, 000	238, 000
Ireland		05.000	05.000			42,000	14,000		56, 000
Israel		25, 200	25, 200	25, 200 100, 000	50, 200	13, 889 40, 000	27, 778 48, 000	48, 000	192, 467
Italy			220, 843		31, 200		99, 974	100,000	1, 142, 490 820, 213
Japan Jordan		1, 400		100,000	200, 000	99, 396	99, 974 4. 185	100,000	6, 98
Korea		1, 400	1, 400		1,000		1,000		2, 000
Lebanon					1,000		4,614		2, 000 4, 614
Liberia		1,000					4, 014		1, 000
Libya		1,000					2,000		2,000
Liechtenstein				468	468	468	468		1, 872
Luxembourg		3, 000	3,000	3, 000	3,000	3, 000	3, 000		26, 000
Malaya		29, 400	0,000	0,00	24, 500	24, 500	24, 500	24, 500	127. 40
Mexico		20, 100			21,000	41,000	150, 000	300,000	450, 000
Monaco					1, 143	857	1, 143	857	4,000
Morocco					1,110	· · ·	1, 429	2, 429	3, 858
Netherlands			26, 315	26, 316	39, 474	39, 474	39, 474	2, 120	176, 902
New Zealand		280, 000	280, 000	140,000	140,000	210,000	210, 000	210,000	2, 683, 000
Nicaragua		200,000	,		,	24, 000	10,000	210,000	34, 000
North Borneo						3, 267		1,000	4, 267
Norway				28, 000	28, 000	56,000	67, 200	67, 200	337, 609
Pakistan		30, 225	60, 450	60, 450	60, 450	60, 450	75, 600	01,200	350, 648
Panama						10,000			10, 000
Paraguay					<b>.</b>		5, 000	5,000	10,000
Peru		9, 128	200, 000		97, 222	26, 901	106, 140	109, 682	549, 073
Philippines		200,000	50,000		50,000	50,000	47, 500	92, 500	490,000
Poland	1, 032, 500	(-32,024)						40,000	1,040,476
Saar					<b>-</b>		28, 571		28, 57
Sarawak						16, 333	8, 167		24, 500
Singapore						6, 534	3, 267	3, 267	22, 47
Sweden		98, 630		193, 050	193, 050	193, 050	193, 050		883, 989
Switzerland	2, 141, 457	219, 210	327, 600		163, 800	163, 800	163, 800	234, 000	3, 413, 66
Svria		210, 210	52., 500		200, 000	100,000	14, 406	7,000	21, 40
Thailand		428, 479	465, 504	50,000	739, 685	633, 750	222, 616	477, 384	3, 102, 89
Trinidad and Tobago		,			.00, 000		10, 000	7, 000	17, 00
Tunisia							10, 000	7,000	17,00
Turkey		17, 857		17, 857	17, 857	44, 643	26, 786	107, 143	232, 14
Union of South Africa	443, 275	_,,		21,001	-7,001	21,010	20, 100	107,110	443, 27

United Kingdom United States Uruguay	403-000 60, 273, 502 1, 000, 000	14, 626, 498	280, 000 5, 850, 000	140, 000 6, 666, 667	280, 000 9, 814, 333	560, 000 8, 300, 000	560, 000 9, 000, 000	560, 000 9, 700, 000	2, 783, 000 124, 231, 000 1, 000, 000
U. S. S. R. Vatican State Venezuela	100,000				2,000	1, 000 20, 000	1,000	500,000	500, 000 4, 000 120, 000
Vietnam Yugoslavia	588, 709	303, 211	400,000	29, 614	4, 445 170, 386	200,000	200,000	200,000	4, 445 2, 091, 920
Total	87, 357, 398	19, 126, 823	10, 416, 477	9, 352, 617	14, 421, 369	13, 593, 863	15, 048, 175	1 15, 838, 537	185, 155, 259
Number of countries contributing	32	36	35	32	46	53	70		

<sup>&</sup>lt;sup>1</sup> Includes \$1,268,542 receivable from 1955 pledges, including \$500,000 from the U. S. S. R., and \$14,569,995 in pledges and contributions for 1956 as of April 5, 1956. A number of countries have not yet made their pledges for 1956.

Senator Green. I do not understand why you pick out malaria and tuberculosis and certain other diseases in the main part of this statement, and then below in a note you refer to leprosy and other communicable diseases. Why do you pick out certain ones and give the detailed figures, and lump the others all together?

MATERNAL AND CHILD WELFARE CENTERS, CLINICS, AND HOSPITALS

Dr. Eliot. If we may speak about the maternal and child welfare centers, clinics, children's and maternity hospitals. You will see that in the list above it says, "Maternal and child welfare centers—peak number of children receiving a daily ration of milk," that is, at a child health center, "3 million children." The daily ration is dried milk, sometimes cod liver oil and such additional food elements, and the number of children can be counted.

The number of children who are helped in a children's hospital, which receives certain equipment and supplies, is not known; and therefore, we do not attempt to give you a figure in that respect.

The same is true in the maternity hospitals.

UNICEF, being a supply organization, does give to countries that request them, supplies to equip certain wards in their general hospitals or children's hospitals. The same is true of the maternity clinics.

But the number of beneficiaries really is not known.

#### VACCINE PRODUCTION

When you come down now to the vaccine production plant, this represents plants that have been equipped, not built but equipped, by UNICEF funds, to produce this vaccine against tuberculosis.

It is not known how many children actually benefit from the production of vaccine in that plant, because they are counted in the countries where the vaccine is used, instead of attempting to determine the effect of that one plant. There are quite a number of these plants todav.

#### LEPROSY PROGRAM

The leprosy control program is quite new. This is one of the newest developments in the children's fund and WHO work. It is part of the program which, however, will go forward, I think, more and more in the next few years.

You take, for instance, the country of Nigeria in Africa, there are probably some 900,000 lepers in that country, and the children in

those families are, of course, exposed to leprosy.

Now, these countries are developing clinics for the cure and control—you see, I use another new word—the cure and protection against leprosy.

The sulfa drugs are the drugs that are used in this case.

Clinics are being started and persons are being cured of leprosy. If the cure goes on long enough, the scientists have found that leprosy can be cured. This is relatively new knowledge in the last few years. And the use of this for lepers in various countries in many parts of the world is being developed.

And where UNICEF and WHO have been asked for help, then

these programs go forward.

# MOSQUITO CONTROL OTHER THAN MALARIA

Then further, communicable disease control, those words are used here. That type of work covers several procedures, including mosquito control programs in those parts of the country where

Senator Green. Including malaria, which you have previously

described?

Dr. Ellor. No. As used here that probably does not include malaria, because they make more definite counts of the populations where a concerted effort is being made to control malaria. But in Latin America, there are certain other projects which are for the eradication of mosquitoes that carry yellow fever or other diseases.

Senator Knowland. It might be draining areas of stagnant water

and spreading oil?

Dr. Elior. Yes, a control effort that is carried out, and in which you cannot count the beneficiaries.

Senator Green. Will you go on?

#### MATERNAL AND CHILD WELFARE CENTERS

Dr. Ellor. I would just like to say one word about the maternal

and child welfare centers that are referred to here.

These are like, comparable to, some of our child health centers in this country. Many of them are very, very simple places, where mothers can bring their babies and children to learn about what is good health practice. Today there are some 10,000 of these in various countries that are being helped by the Children's Fund.

They are being equipped and they are stocked with dried milk and

other types of very simple foods or drugs that are useful.

# TRACHOMA CONTROL

Senator Green. There is another question I would like to ask. You have these headings "Yaws, mothers and children," and "Trachoma, children."

Why are mothers left out of the last item? Don't they have

trachoma?

Dr. Elior. The projects for trachoma control have usually been concentrated in the schools up to now, with the exception of one in Morocco, I believe, where an effort to eliminate trachoma from the total population has been tried.

Senator Green. The explanation is that "mothers" are left out in

the second intentionally?

Dr. Elior. Well, I think that is correct. The mothers are not included. Mostly it is school children. They treat these children in the schools, because they get the children gathered together in one place, and it is easier to treat them right there.

Now, this, again, is a treatment which is made possible by new knowledge coming from the use of sulfa drugs. The treatment consists of putting ointment in the eyes of the school children. It must

be carried out by someone, and the teachers do it, largely.

Take the Island of Taiwan, where there is a widespread program of treating children with trachoma, in the schools.

So far they have not reached out to the families at home, though they are planning to, and this will be the next stage of the program. But up to now, there are no mothers to be listed in these figures.

### PROGRAM IN IRAN

Senator Smith. I would like to ask you one question here.

I am very much interested in Iran. I know Dr. Pate in New York very well. He has been helping to build a private foundation in Iran, especially for treatment of trachoma.

Are we contributing to that Iran foundation which I think was en-

dowed by some Iranians who had means?

Dr. Elior. I think the children's fund or the World Health Organization would not be putting money into a foundation, but no doubt are cooperating with it in their programs.

Senator Smith. Why did our contributions increase so rapidly

here?

They increased from 5,000 in 1954 to 100,000 in 1955 and 200,000 in 1956.

Dr. Elior. This table you are looking at shows contributions by the

countries to the central fund of UNICEF.

In other words, Iran is paying into the central fund of UNICEF, just as we pay into that central fund, these amounts of money. They have increased their contribution from \$4,000 in 1950 to \$200,000 in 1956.

Senator Smith. Thank you very much.

Dr. Eliot. Mr. Chairman, I think that probably covers pretty well the types of programs that the children's fund is supporting.

#### MILK PROCESSING PLANTS

One other, that is the building of the processing plants, has been

a very important contribution to many of these countries.

Some of the countries have never had a pasteurization plant, for instance, to pasteurize their own local milk, and UNICEF has equipped plants that the countries themselves have built with pasteurizing machinery or with milk-drying machinery. Since the beginning of its program, UNICEF has contributed to 169 such milk-processing plants.

One hundred and twenty-four are now in operation in 28 countries supported entirely by the countries themselves. Forty-five are still in

process of preparation.

#### DETERMINATION OF UNICEF CONTRIBUTION

Senator SMITH. Is this \$10 million contribution for the Children's Fund, what Mr. Pate wanted this year from the United States?

Dr. Eliot. Mr. Pate asked for more than \$10 million you are correct.

Senator Smith. Why did we cut him down?

Dr. Eliot. I think perhaps you should answer this one, Mr. Phillips. Senator Smith. I would like to know because I think UNICEF does very important work. I have followed Mr. Pate's activities very closely for years. He is doing magnificent work. I am wondering why we had to cut him down if it is only a few million less than what he asked for.

Mr. Phillips. Mr. Chairman, I am not familiar with the details, but I think as I recall it, the desire is to increase the United States contribution approximately in the same proportion as we felt other governments would increase theirs.

It is the difficult problem of estimating what other governments are

willing to do to pull their share of the load.

Now as is indicated here, there has been a gradual decrease in the United States percentage, and little by little other governments are

picking up the slack.

The problem was carefully considered by the various departments concerned, including the Bureau of the Budget and the State Department. I think the primary concern to us was what others might do in relation to our own contributions, what they were likely to do.

Senator SMITH. I think that is a legitimate reason but I am sorry to see that the budget was cut in two areas in which I am very much interested—this and the exchange of students. I think Mr. Pate asked

for \$14 million and was cut to \$10 million.

We ought to examine those things very closely. Here are the 2 most important programs for world understanding, peace and good relations with countries as I see it—the exchange students and the Children's Fund—and yet in those 2 areas I find cuts

by the Budget Bureau or somebody. I have taken it up with the State Department already. We ought to

have an explanation of that.

Mr. Phillips. This \$10 million request represents an increase of

\$300,000 over last year's appropriation.

Senator SMITH. I just raise the point for the record because I want to bring it up and find out why these two special endeavors which are doing such a wonderful job are cut where other things possibly could be cut more effectively, if we have to save money.

Mr. Philips. As I said, Senator, there is the problem of con-

tributing the amount of United States funds which are likely to be drawn down on the percentage basis established in relation to total

Government contributions.

If there are no further questions on the children's fund program, Mr. Chairman, I would conclude with a few words about the final program we have.

Senator GREEN. Very well.

Senator SMITH. I hope we can. I am very much interested in this.

# UNITED NATIONS REFUGEE FUND (UNREF)

Mr. Phillips. If that is agreeable, I would like to speak in a little more detail about the United Nations Refugee Fund.

It is a new program, one with which I think Senator Smith is familiar because I believe the Senator was at the General Assembly at the time this program was established.

Senator SMITH. Yes.

Mr. Phillips. I am particularly interested in it. I serve as the United States representative on the executive committee of the United Nations High Commissioner for Refugees.

I was interested, and I am sure that members of the committee will be interested, that the High Commissioner's Office received last fall the 1954 Nobel Peace Prize award for the devoted and effective service which his office has given on behalf of refugees.

# DISTINCTION RETWEEN VARIOUS REFUGEE PROGRAMS

Now this program can best be regarded as 1 arm of a well-coordinated 3-pronged attack on the refugee problem, refugee and

migrant problem in Europe.

The other two, the Intergovernmental Committee for European Migration which concerns itself primarily with moving migrants, and the second, the United States Escapee Program, which deals with certain political security and humanitarian objectives of the United States, constitute the 2 other arms of this 3-pronged attack. You will have a statement submitted on the Escapee Program.

Senator SMITH. Let me just ask you here, do we include in this

discussion the Arab refugees?

Mr. Phillips. No. This was considered when the committee heard testimony from the Assistant Secretary for Near Eastern Affairs, Mr. Allen. It is a different program.

Senator Smith. That may be. I want to get in the record a clear

differentiation between these different refugee programs.

What are the others?

Mr. Phillips. They are, besides UNREF, the Intergovernmental Committee for European Migration (ICEM) which is still in existence, and the Escapee Program. ICEM is one of the three arms I spoke of, but a separate program which will not be considered today because that has permanent authorization. I believe, if the committee wished a statement on the Migration Committee program, one could be submitted.

Mr. Warren is here.

Senator SMITH. Of course my concern right now is the present legislation so we had better deal with that first.

Mr. Phillips. Yes.

Each of these three programs concentrates on a special area of the

refugee problem in Europe.

Together they bring to bear the varied resources and talents which are required to meet the complex problem of the unabsorbed populations of Europe.

### WORK OF UNREF

The High Commissioner's program, what we call UNREF, the United Nations Refugee Fund, which is administered by the United Nations High Commissioner for Refugees, is concerned primarily with the local integration of some 300,000 refugees, primarily in Austria,

Germany, Italy and Greece.

Now the number one priority of this program is the problem of the refugees still remaining in camps, many of them since the end of World War II. This is basically a self-help program, because international funds are combined with local funds to provide the relatively small assistance which is needed to give a refugee a start on the road to becoming a self-supporting and self-respecting human being.

It puts him to work in the country where he lives through loans, through grants, through vocational training, through counselling serv-

ices and so forth.

The program also provides for the permanent institutional care of the so-called difficult cases. These are people who are tubercular or very old or who have other diseases or handicaps which make it impossible for them to be trained for employment or any other economically useful activity.

Then there is a smaller part of the program devoted to emergency assistance for certain categories of refugees, largely European refugees remaining in China, who, without such emergency assistance, would

surely die of starvation.

### UNREF ALLOCATIONS

The program began officially on January 1, 1955. It was established by a General Assembly resolution in the fall of 1954, but it did not really begin to operate until the last 6 months of 1955, due to the inevitable delays in getting a new program started and in getting contributions in sufficient quantity to be effective.

During 1955, \$3,135,000 was allocated to benefit an estimated 23,000

refugees.

That, we feel, was not a bad beginning, though it was a little short of the target which the High Commissioner had set for his first year's

operation.

The financial target set for the current calendar year 1956 is \$4,400,000 plus \$1,200,000 representing unimplemented 1955 projects which were carried over into the calendar year 1956 program. That makes a total effective target established by the High Commissioner and his executive committee of \$5,600,000 for the current calendar year, 1956.

That is the target which has been established toward which—

### UNITED STATES CONTRIBUTIONS

Senator SMITH. Where does the \$2.3 million you gave us earlier for 18 months fit in?

Mr. Phillips. May I comment on that? I was going to get to that point right now.

We are requesting a new authorization of \$2,300,000 for an 18

months period beginning January 1, 1956.

We propose that \$1,500,000 of that sum be used for the calendar year 1956 program. The remaining \$800,000 would be available as a contribution for the first 6 months of the 1957 calendar year.

Having that \$800,000 available will permit us next November at the pledging conference in New York to make a pledge for the first

6 months of 1957.

And this, as I said earlier, is necessary because the UNREF program, like the other voluntary programs of the United Nations, operates on

a calendar basis.

Now in addition to the new authorization request for \$2,300,000 we would like very much to be able to apply a small balance of \$194,000 of our fiscal year 1956 appropriation against these unimplemented projects amounting to a little over \$1 million which were carried forward from the 1955 program.

We feel that it would be helpful to make available that rather small unallocated balance as something which could be applied against the

carry-over of projects from 1955.

### FLEXIBILITY FOR UNITED STATES CONTRIBUTION

As a result of the experience which inevitably has been gained during the first few months operation of this program, we have come to the conclusion that there is needed a little greater flexibility in determining the basis on which the United States contribution is made.

The present percentage of United States contributions to total other

governmental contributions, is one-third.

### THE "DIFFICULT CASES"

One of the biggest problems that faces the High Commissioner in this program is the disposition of these so-called difficult cases.

These are the people I referred to, the old, the tubercular, and the

others.

Senator Smith. We used to call them the hard core, didn't we? Mr. Phillips. Hard core. We tried to avoid that term.

Senator Smith. The hard core in the DP program.

Mr. Phillips. That is correct. These are the old people, people with chronic illnesses and so forth, the people in other words whose only real permanent solution is institutionalization of some kind.

For an economic point of view of course these people are unproductive. They are a drain on the economy of any country in which they live. And for this reason the High Commissioner has been greatly heartened by the generosity of several small countries including the Netherlands, Sweden, Denmark, Norway, Switzerland, and Ireland, all of which have been taking in these difficult cases in increasing numbers and plan to continue doing so in the future.

In addition to providing this institutional care, taking these people and putting them in their own institutions at their own cost, most of these small countries are also making financial contributions to the

UNREF central fund.

### INSTITUTIONAL CARE TO BE CONSIDERED AS A FINANCIAL CONTRIBUTION

We feel that the money these governments are expending directly in behalf of these difficult cases to provide them institutional care is a vitally important contribution to the High Commissioner's program, and we believe therefore that the United States contribution should be used in part to encourage these kind of activities.

One such means of encouragement would be to consider the costs undertaken by these governments on behalf of the difficult cases, as a

valid financial contribution to the total program.

We therefore propose that such contributions be taken into account in determining the amount of money that the United States contributes within the limitations imposed by the annual appropriation and the one-third ratio of United States to total government contributions.

We feel that to be able to do this will encourage these countries to continue taking the difficult cases and will thereby greatly assist and expedite the High Commissioner's program which as you know must be completed by the end of 1958.

I would be very happy to comment on any further points the committee may wish to discuss. It is a small program but it seems to me

a vitally important one.

### THE REDEFECTION PROBLEM

Its activities have a bearing on the so-called re-defection campaign. Many of these refugees are people who have been refugees for as long as 10 years. Many of the individuals who are most susceptible to the so-called come home campaign are among those who are eligible for assistance under this program. Therefore we would like to do everything we can in the limited time available to make this program a success.

It is for these reasons that we have suggested one or two slight liberalizations for determining the basis on which we contribute.

Senator Smith. Can you make any estimate of how long it is going

to take to clean the whole thing up?

Mr. Phillips. The program is scheduled to end at the end of 1958. Whether it will be successful in cleaning it up by then depends almost

wholly on how much governments are willing to contribute.

At the present time, the total contributions have not been as great as the High Commissioner hoped. However, he has been very successful in raising funds from private sources as well. The little country of Holland raised almost a million dollars by private solicitation in addition to a substantial governmental contribution.

We are giving at the rate of about one-third.

I hope that this is enough.

#### DEFINITION OF A REFUGEE

Senator Green. There is one trouble I think in dealing with this

whole problem, and that is how you define refugee.

This country was largely settled by refugees. The same process may be going on in other parts of the world, especially Africa, and in many of these new countries where these people go there and settle.

How do you define "refugees"?

Mr. Phillips. In this case the refugees who come under this program are defined by the mandate of the United Nations High Commissioner.

Senator Green. I mean in the sense you are using it.

You are arguing for a certain kind of refugees.

Mr. Phillips. Yes. Well, these are refugees who are without any citizenship and who are needy, who have no means of maintaining a

Senator Green. I would like to see written out a definite definition as to what are refugees.

Mr. Phillips. In this sense I would be glad to furnish a statement

which would apply to these refugees, Senator.

Senator GREEN. I know what the popular definition of refugees is: people who are escaping from one country to another to avoid war or some other evil.

Mr. Phillips. Yes, these are a particular category of that type, how-They are the unassimilated group left over after most of the others have been resettled or have found ways of becoming integrated in the communities in which they live. They are what is left over, the milk after the cream has been skimmed off and they represent the hard core in a broad sense.

Senator Green. You have to have some distinct definition, in terms

of length of time or something of that kind.

Mr. Phillips. I shall be very happy to try to provide that. (The information referred to is as follows:)

The refugees whom UNREF is assisting are in general those who, owing to wellfounded fear of being persecuted for reasons of race, religion, nationality or political opinion, are outside the country of their nationality and who are either in need of assistance in establishing themselves in the free world or require emeregncy assistance. Practically all of them are from the Communist-controlled areas of Eastern Europe and the Soviet Union and have been living at or near the subsistence level for periods of up to 11 years in Western Europe, the Middle East, and Far East. Many of them are still living in refugee camps and many of them are so-called difficult cases—aged, blind, tubercular, or otherwise displaced refugees who require special or institutional lifetime care and main disabled refugees who require special or institutional lifetime care and maintenance.

Senator Smith. Isn't it primarily those people who have left their own home because they did not want to submit to Soviet slavery?

Mr. Phillips. That is right, sir.

Senator Smith. They escaped from behind the Iron Curtain and we are giving them help because of that?

Mr. PHILLIPS. That is right.

Senator SMITH. They may be very valuable citizens.

Mr. Phillips. That is true.

Senator Green. Senator Smith, suppose they wish to escape the

other way, not from the Iron Curtain but to the Iron Curtain?

Senator Smith. We do not have anything to do with them if they are foolish enough to go back. I am talking about the people who have left their homes and everything because they saw what Soviet communism was and they were not willing to accept slavery. wanted to be free people and they came out for that reason.

Senator Green. Is your program limited to those who escape to the

Mr. Phillips. Yes. It has not unanimous support. Union has fought this program tooth and nail from the outset.

Senator Green. Have you anything to add?

Mr. Phillips. I have nothing to add except to say that I believe we have a statement for submission on the escapee program.

Mr. Dawson is here to answer any questions on that program.

We are now finished, Mr. Chairman, with the United Nations voluntary programs.

The Escapee Program you understand is the United States program, not associated with the United Nations.

Thank you, Mr. Chairman.

Senator Green. Do you want to read this?
Mr. Phillips. Mr. Dawson, who is the Director of the United States escapee program, will give this.
Senator Green. Mr. Dawson, do you want to read this?

Do you mind interruptions as you go along in case there are any questions?

### STATEMENT OF LAURENCE DAWSON, CHIEF, ESCAPEE PROGRAM DIVISION, DEPARTMENT OF STATE

Mr. Dawson. What I had planned to do, if the committee approved, was to submit the statement for the record and to attempt to give orally a brief summary of it and a few remarks in clarification of what the program is.

Senator Green. It is much more certain to be read if you read it yourself than if you wait for it to be read in the record.

Mr. Dawson. I shall be glad to read it.

Division, Bureau of Security and Consular Affairs, Department of State. Effective April 1, 1956, the United States Escapee Program was transferred under the authority of Executive Order 10663 from the International Cooperation Administration to the Department of State.

### DISTINCTION BETWEEN ESCAPEES AND REFUGEES

Senator Green. I think we had better interrupt you as you go along.

Why do you use "escapee" instead of "refugee," which we were just

talking about? What is the distinction?

Mr. Dawson. I am glad you asked me that, Mr. Chairman.

I should like with your permission to answer that.

The anticommunist refugees left over in Germany, Austria and Italy after the war consisted of some persons who had escaped during the war but in the main of persons who had been displaced during the war in connection with the slave labor program.

Consequently the term "displaced persons" came into general use

at that time, but they are refugees.

They are fugitives in this case from communism.

As the Soviets consolidated their controls over the satellite countries during the post-war period, and particularly from 1948 onward, we began to apply the term generically "escapees" to those persons who were at that time breaking out from these ever-tightening controls and coming out into the free world again.

Senator Green. As I said before, I think it would be a good idea

if you tried to reduce the distinction to words.

Mr. Dawson. I do not think the next sentence gives the exact distinction that the chairman is requesting, but I think it gives a picture

of the type of person we are aiding.

We have defined the term rather closely for administrative purposes. In the main, the Escapee Program is concerned with those refugees, anticommunist political refugees, from the satellite countries who have escaped since 1948, and with Russians who have escaped since 1939.

We feel, Mr. Chairman, that the people who break through the fiendish barriers along the Iron Curtain and risk their lives in so doing are seeking to escape from what they themselves consider a slave world into what they themselves consider a free world, and a world of humanity and our program seeks to exemplify this humanity through the services which are performed for the escapees.

### PURPOSE OF THE PROGRAM

Senator Green. It may be a very worthy purpose but I think it is very difficult to prove.

Please go on.

Mr. Dawson. Purpose of the program: The United States Escapee Program was established in 1952 to assist those persons who have

broken through the Iron Curtain to seek in the West the freedom and humanity which they cannot find in the Soviet and satellite countries.

The program provides care and maintenance and resettlement assistance which supplements the welfare activities of asylum countries and of various private and international organizations in behalf of

these anti-Communist refugees.

These recent escapees who are assisted by the United States Escapee Program are not also being helped by the United Nations Refugee Fund which concentrates on the local integration of the earlier group of refugees. The program is a means of demonstrating to the captive populations within the Soviet orbit the interest of the people of the United States in their welfare and in their desire for freedom.

Accomplishments and plans in Europe: By December 31, 1955, 80,600 persons had been provisionally registered with the program for

assistance in Europe.

Senator Green. Let me ask about that.

What do you mean by "provisionally registered"—registered with the Government?

Mr. Dawson. Registered by the Escapee Program for assistance under the program.

Senator Green. Do you have a special office?

Mr. Dawson. Yes, sir; we operate through Escapee Program offices in the various countries of asylum, and under contracts. escapee program offices within the United States mission in the country concerned, and at the present time it is envisaged that they will all be within the consular structure of the Department of State.

I would like to inject if I may at this moment that the Escapee Program is a United States program carried out by United States Government personnel abroad who supervise projects which are actually implemented by voluntary agencies, largely the American religious and nationality voluntary agencies, and that we do not make grants to any agency.

We spend our money through projects which are reimbursable to the contractor on the basis of public vouchers supported with receipts submitted, so that close supervision by United States Government per-

sonnel is entailed at every stage.

Senator Green. Are there people who don't want to settle where they are, and want to go back to their own homes, or be supported by

other people?

Mr. Dawson. I think there are certainly always in a large group of people those who are exceptions to the general rule, but basically they have in common a desire to become reestablished, to reacquire the rights which they have lost.

### ESCAPEES DEFINITION DEMANDED

Senator Green. I am thinking of the people that formerly lived in Israel.

Are they escapees under this?

Mr. Dawson. Not in the sense of this program, no, sir.

Senator Green. How would you distinguish them from the other definition?

Mr. Dawson. I would distinguish them in terms of the basic terms of reference of the Escapee Program which is concerned with persons who have fled from Communist countries because of anticommunism.

Senator Green. Is that part of the definition?

Mr. Dawson. Well, Mr. Chairman, I am not competent to discuss

the Israeli-Arab problem. That is not within my sphere.

Senator Green. It seems to me any rule that you make must apply not only to one country as against another country, but as to all coun-

tries against all countries.

Mr. Dawson. Our program is authorized under the Kersten amendment of the Mutual Security Act of 1951 and as subsequently amended, which authorized programs of assistance to persons who had escaped from Communist countries, by virtue of their anticommunism, into the free world countries in Europe, and as it was subsequently amended, Asia also and the Near East. So we must make our definitions within the terms of our frame of reference.

### ACHIEVEMENTS OF PROGRAM

Of these, 23,600 had been resettled through emigration, primarily to the United States, Canada, Australia, and Latin America; 3,300 had been permanently established in their countries of asylum; and 30,800 remained on the caseload. The balance of 22,900 persons had been dropped from the caseload as proved ineligibles, as persons no longer in need of assistance, or for other reasons.

Assistance projects carried out through the Escapee Program meet the immediate needs of the escapees, and more importantly, work toward the eventual goal of permanent re-establishment on a self-

dependent basis in the free world.

Among the services provided are extra food, improved housing, clothing, individual counseling, documentation, visa search facilities, vocational and language training, temporary local employment, and transportation.

These projects are carried out under nonprofit contracts with voluntary agencies representing the diverse national and religious backgrounds of the escapees, and with the Intergovernmental Committee for European Migration with respect to transportation arrangements.

All escapees are carefully screened by U.S. authorities to establish their status as political refugees. The facilities afforded by the program meet every real need of the escapees to assure reasonable living conditions while in asylum, and to develop and carry out appropriate

resettlement plans.

It is proposed to continue the Escapee Program in fiscal year 1957 at a program level of \$7,000,000 which represents an increase above that of the present fiscal year, to take into account United States interests in the new political situations which face the escapees. It is estimated that during fiscal year 1957 about 11,000 persons will be resettled, locally integrated, or otherwise dropped from the case load.

With this reduction, and taking into account new escapees and others added to the case load, it is estimated that 12,840 persons will

still be in need of assistance by the end of 1957.

Senator Green. Excuse me, you said that these Arabs were not included in this?

Mr. Dawson. No, sir, they are not.

### WHO IS AN ESCAPEE?

Senator Green. What is this program limited to?

Mr. Dawson. It is limited to escapees who have fled from Communist countries and broken through into the non-Communist world who are opposed to the Communist system and established as bona fide political refugees, fearing persecution.

Senator Green. It means that their purpose is to live in a country

that has other ideas from the country they came from?

Mr. Dawson. Yes, sir; their purpose is to escape from the captivity behind the Curtain produced by the ideas and the system there into a country where they can have freedom.

country where they can have freedom.

Senator Green. Might not a person escape from a country and not want to live there because of their own personal likes or dislikes, or the fact that they wanted to get rid of their family?

Mr. Dawson. They might well give such a reason.

Senator Green. You cannot search their minds to see whether they

are telling the truth or not?

Mr. Dawson. We can more than you might suppose, Mr. Chairman. Through very careful screening and through interrogation and through assembling information from all other sources including the other refugees from the same area who know something about these persons, it is possible to come to a very reasonable conclusion as to the bona fides of each person.

Senator Green. All right, please go on.

### NEW EMPHASIS IN PROGRAM

Mr. Dawson. Operationally the program would continue generally as heretofore, but new emphasis would be required (a) to develop substitute resettlement channels at the scheduled end of the Refugee Relief Act in December 1956; and (b) to find permanent solutions through institutional placement or local integration for the "hard core" of USEP eligibles for whom emigration is extremely difficult by reason of age, illness or family composition.

Although the caseload will decrease numerically, the costs will not be reduced proportionately due to the expense of local integration and of projects necessary to meet the changing conditions in Europe.

And I might interject here also due to a raise in the level of the program in the Far East, in view of the great political importance of the program and of other factors in the Far East.

### SOVIET AIMS

Soviet aims with respect to refugees are based on their continuing need to maintain control over the captive populations of the Soviet Bloc. As stated before this committee last year, the means employed include elaborate measures to prevent escape, the repatriation of those who do escape, and the preclusion of assistance to refugees in asylum.

The Soviets realize, however, that 10 years of postwar effort on their part have failed to produce any considerable voluntary repatriation of emigres. Therefore, their primary effort is to discredit that

great majority who will not return.

United States objectives, in contrast, as implemented in the operations of the Escapee Program are to keep faith with those who seek freedom in the West through adequate aid and resettlement facilities and through these means to maintain hope and friendship for the free

World behind the Iron Curtain.

The Soviet policies are based on their realization that the large numbers of persons who have fled from Eastern Europe symbolize the rejection of Soviet tyranny and that the fate of the anti-Communist emigration bears a vital and direct relationship to the outlook and actions of the vast captive populations, who must choose between resignation to Soviet domination and the hope of eventual freedom.

In view of this, Soviet efforts are designed:

(1) To demoralize the refugees and thus destroy the emigra-

tion as an anti-Communist force;

(2) To discredit the refugees in the eyes of the Free World and thus bring about withdrawal of sympathy and support;

(3) To discredit the refugees in the eyes of the captive populations in order to weaken their value as a symbol of freedom;

(4) To convince the captive populations that refugees are mistreated, exploited or neglected by the Free World, and thus to diminish disaffection and the desire to resist, and

(5) To utilize in propaganda a limited number of redefectors

in support of the above objectives.

The ideal form of assistance which the Soviets could get in this discrediting effort would be a free world refusal to continue refugee aid. Thus the Soviets have used every available means to promote nonassistance to refugees. It was no accident that, during the Austrian Treaty negotiations, the Soviets, although willing at an early date to drop demands for provisions forcing repatriation of emigres, sought to the very end to prohibit refugee relief in Austria.

Similarly they would welcome the closing of borders by the West and discontinuation or sharp decrease in Western governmental pro-

grams.

Other Soviet aims are to promote antagonisms between refugees and the indigenous populations of Western countries. The Soviets hope to vitiate the effective and highly symbolic activities of the emigre leaders who constantly remind the captive populations of the ultimate value and possibility of freedom.

### SOVIET TACTICS

The past year and a half has been eventful in respect to political and economic developments affecting refugees. Many of these events have been disturbing to the refugees remaining in Europe and have

tended to increase their collective sense of insecurity.

They have included the withdrawal of troops from Trieste following on the settlement there, the signing of the Austrian State Treaty and consequent Austrian sovereignty, including responsibility for refugees under a neutrality status, the steps leading to the restoration of German sovereignty and the relinquishment of occupation controls by the United States, the Geneva Conferences, and the Soviet bloc antiemigration campaign.

The Soviets lost no opportunity to further their objectives in con-

nection with these events.

For example, recognizing that the Summit talks had created apprehension among refugees that the Free World would change its asylum and assistance policies, the Soviets following up with a demand for the return of an alleged 100,000 Soviet nationals in Western Germany during the Adenauer-Bulganin talks, and shortly thereafter sought to pass a repatriation resolution in the United Nations.

### VIGOR OF SOVIET REDEFECTION CAMPAIGN

The antiemigration campaign in particular, which was just becoming apparent when the Escapee Program was presented to the Congress last year, has continued as a direct challenge to United States refugee policies. The campaign is an extension and insentification of consistent Soviet policy to discredit refugees both in the Free World and behind the Iron Curtain, to disrupt the political activities of emigres, to induce as many as possible to return to their native lands, and to demoralize those who cannot be lured to return.

Propaganda statements, attributed to returnees, attempt to contrast alleged miserable conditions in the free world with the good and

honest way of life at home.

Claimed indifference toward the refugees' fate and misuse of them against their native countries by the Western Powers, above all by the United States, are in Soviet propaganda set against forgiveness, humane treatment, housing and patriotic tasks, all of which the Communist regimes promise to redefectors.

Overt operations include spurious offers of amnesty, letters from family members at home beseeching relatives to return, special bulletins urging redefection and attacking western information organizations and exile associations, and the establishment of new radio sta-

tions which beam propaganda to the emigres.

The Communist efforts are not confined to propaganda but include such undercover techniques as assassinations, kidnapings, and pressure by agents provocateurs.

The programs are outwardly carried out separately by the several Soviet bloc countries but appear to be centrally directed and heavily financed, showing every sign of careful and lengthy preparation.

Reversing the stand taken at the end of the immediate postwar repatriation period that all emigres are traitors, an extreme compassion is now feigned for the difficulties encountered by the emigres. This propaganda plays on very real problems which the emigres have to face in their resettlement, including the fact that many are difficult to resettle—and I might say also including the fact of the withdrawal or the lessening of occupational controls, and that United States influence in major asylum areas is diminishing.

These problems are presented in a highly exaggerated and distorted

light.

Unfortunately and notwithstanding our excellent record of resettling refugees from the captive areas, the Soviet activities are not without a measure of success. This is because the situation of residual refugees, particularly in asylum countries which keep their doors open for new escapees, is highly susceptible to exploitation.

The challenge presented by this campaign is simply whether the minds and hearts of the peoples of Eastern Europe and Communist Asia shall be forever lost to the cause of freedom.

A Hungarian, writing to thank the Escapee Program for assisting him, has eloquently stated the proposition:

Dark ages have descended on Europe, and it is only because of the normal force and example of the United States that more than a 100 million people do not lose faith. In my country the people are hungry for bread, but they are starving for freedom.

### ACTIVITIES IN THE FAR EAST

In the Far East, the Escapee Program supports a number of voluntary agency projects in Hong Kong, Macao, and Taiwan to assist escapees either in resettlement or integration into the local economy. The program is necessarily highly selective in relation to the enormous refugee population particularly in Hong Kong, and serves primarily as a token effort of cooperation with the governments upon whom basic responsibility rests.

From April 1953 to November 1955, nearly 13,000 persons had been resettled out of Hong Kong and Macao, primarily to Taiwan, but also to other places in Southeast Asia and the United States. In the same period, nearly 70,000 services had been rendered to assist individuals in local integration, including the provision of housing, medical care, vocational training and counseling. Assistance was also given in

marketing the products of cottage handcraft industries.

Concurrent with United States-financed activities, the Hong Kong Government has undertaken an ambitious and highly successful program for housing the thousands of squatters in the colony. In the first year of this program, ending in March 1955, 66,597 persons had been housed in permanent structures, and 124,822 persons in temporary settlement areas.

The activities of the Escapee Program in the Far East serve the same national objectives as does the program in Europe. The concept of Free China as a symbol of haven and refuge for Chinese on the mainland is developed and maintained as an alternative to communism in

Chou En-lai in a major speech in January 1956 placed new emphasis on the return to the mainland of Chinese who had fled to Taiwan. This is an apparent tactic to undermine the morale and spirit of resistance in Free China, and bears many similarities with the anti-emigration compaign in Europe.

In 1957, it is proposed to extend United States-financed projects along present lines in the Far East, taking advantage of successful experience to date, in order to demonstrate further United States concern for refugees from communism and to strengthen the refugee community and Free China as a symbol of anti-Communist resistance for the Chinese people.

Senator Green. Your statement is very well written. I must con-

gratulate you.

Mr. Dawson. Thank you, sir.

Senator GREEN. I think it is very difficult to distinguish people who are fleeing for religious reasons, political reasons, or family reasons.

Senator SMITH. I want to thank Mr. Dawson for his statement. It

is an excellent statement.

Mr. CLAXTON. Mr. Chairman, before the committee adjourns could I make a brief statement?

Senator GREEN. What is that?

Mr. CLAXTON. You will recall that Mr. Phillips mentioned three somewhat related programs, the U. N. Refugee Program, the Escapee Program and the Intergovernmental Committee on European Migration.

We have heard Mr. Phillips on the refugee program and Mr. Daw-

son on the Escapee Program.

### INTERGOVERNMENTAL COMMITTEE ON EUROPEAN MIGRATION

We did not plan to present a witness on the ICEM, because as I think he mentioned, there is existing authorization for appropriations and the committee does not have to act on authorization but only on

But in order that the committee would have information on this matter before it, I would like to ask to put in the record a couple of pages out of this presentation book which would explain the present

status of ICEM.

Senator Green. We will be very glad to have it.

Are you going to leave that? Mr. CLAXTON. Yes, sir.

NONREGIONAL PROGRAM-INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Comparative summary of obligations from fiscal year appropriations

### [In thousands of dollars]

### PROGRAM

Obligations:	
Fiscal year 1955	<sup>1</sup> \$10, 500
Fiscal year 1956	
Proposed, fiscal year 1957	<b>12,</b> 500
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<sup>1</sup> It is anticipated that \$891,000, obligated in fiscal year 1955 in excess of calendar year 1955 contributions, will be returned to the Treasury.

Comparative summary of United States contributions to calendar year programs [In thousands of dollars]

### PROGRAM

PROGRAM	
Contributions:	
Calendar year 1955	\$9,609
Calendar year 1956	12,500
Proposed, calendar year 1957	12, 500

#### GENERAL NARRATIVE STATEMENT

### Authority and background

The Intergovernmental Committee for European Migration (ICEM), composed of 26 governments, was organized on the initiative of the United States in Brussels in 1951. The Union of South Africa is presently an additional prospective member. ICEM's purpose is to facilitate and to increase the movement of migrants and refugees out of Europe who would not otherwise be moved. Section 534 of the Mutual Security Act of 1951, as amended, contained, authorization for United States participation in and contributions to the Committee in calendar years 1953 and 1954. Section 405 (a) of the Mutual Security Act of 1954 provided continuing authority for appropriations and participation in the Committee on the basis of the constitution adopted by ICEM which came into force in October 1954. Twenty-five governments have accepted the constitution.

### United States objectives

Austria, Italy, the Netherlands, and Greece are overpopulated countries. Because of an unbalanced population structure, Germany still needs emigration, though on a reduced scale. It is estimated that a movement out of Europe of at least 350,000 persons annually should be achieved. Only 175,000 are now moving annually without international assistance. The basic United States purpose is then to secure a larger movement out of Europe, thereby helping to alleviate those economic and political problems related to unemployment and underemployment resulting from overpopulation, and at the same time helping to meet the manpower needs of the immigration countries of the Free World.

### Developments and accomplishments

(1) ICEM moved 77,664 persons in 1952, 87,501 in 1953, 121,222 in 1954 and 120,442 in 1955. It is estimated that ICEM will move approximately 126,000 in 1956 through its regular program. These movements have been to Canada, the United States, the Latin American countries and increasingly in the past 2 years to Australia.

(2) The United States has constantly urged and ICEM has endeavored to place an increasing proportion of the movement on a fully or partially reimbursable basis. The contributions of migrants themselves to the costs of their transportation has shown a steady increase, both in prepayments in advance of movements and in repayments on loans made on a revolving fund basis. Reimbursements for the costs of movement by governments have also shown a steady increase both in the per capita rates and in the dollar amounts based on

the volume of movements.

(3) ICEM has developed satisfactory working relationships with other agencies, national and international, dealing with refugees, including the Office of the United Nations High Commissioner for Refugees and the United States Escapee Program. There is no duplication of work among these agencies, ICEM's function being that of moving refugees who have received visas of admission to countries of immigration. ICEM provides transport for refugees moving from Europe to the United States under the Refugee Relief Act of 1953 who are unable to pay the full cost of their transportation. 7,246 such refugees were moved in 1954 and 20,521 in 1955. It is estimated that 31,510 will be moved in 1956 and 15,080 in 1957. The United States contribution to ICEM covers in part the cost of such movement. No funds for this purpose are included in appropriations under the Refugee Relief Act of 1953. ICEM also moves escapees to all destinations under nonprofit contractual arrangements with the escapee program at ceiling rates of \$125 per person for regular cases from Europe, \$450 per person for European refugees from Hong Kong, and other special movements at actual cost.

### Basis of United States contribution

The United States annual contribution to ICEM is in 2 parts, 1 to the agency's administrative expenditures and 1 to the operational expenditures. The percentage of the United States contribution to administrative expenditures, originally 33.33 percent, has been reduced by the addition of new members to 30.87 percent for 1957. United States funds available for contribution to the operational expenditure have been related to the budget of planned movement adopted by ICEM for each year, but payment has been made on the basis of the actual movement achieved during the year and on the comparable contributions of other governments. During 1955 and 1956 the latter condition of contribution stipulated that the United States contribution to operational expenditure should not exceed 45 percent of all government cash contributions to operational expenditure. Computed on the basis of the total United States contributions to the Committee, the United States contribution per person actually moved was at the rate of \$77 in 1953, \$67 in 1954, \$80 in 1955, and \$88.47 in 1956, exclusive of any special movements of Eastern European refugees. The lower per capita contributions in 1953 and 1954 were possible because (1) ICEM carried over more than \$6 million from its operations in 1952 which were expended for operations during 1953, 1954, and 1955, and (2) in 1953 and 1954 movements accomplished were to areas involving smaller per capita costs to ICEM. Now that the carryover has been exhausted, larger contributions will be required of all contributing governments if ICEM is to meet the costs of increasing movements of which a higher percentage each year (41 percent in 1956) is to Australia. The chief countries of emigration and immigration increased their per capita rates and the dollar amounts of their contributions in 1954, 1955, and 1956. Italy, for instance, now contributes \$60 per migrant to the Western Hemisphere and an additional \$122 per adult rigrant

going to Australia. Australia contributes \$75 per migrant from Italy, and \$100 per migrant from the Netherlands. The Netherlands contributes \$60 per migrant to the Western Hemisphere and \$100 per migrant to Australia. Germany contributes \$60 per migrant to all destinations.

### Forecast of program for 1957

ICEM has estimated movement for 1957 at 145,550. This includes an estimate to the United States under the Refugee Relief Act of 15,080. Developments during the past year indicate that the movement to Canada under the Committee's auspices will remain at a low level owing to the availability of commercial space on North Atlantic routes. However, the movement to Australia is increasing substantially because of the steady demand for workers in Australia. It is also expected that the movement to the Latin American countries will increase in 1957 because of improved technical services provided jointly by member governments and ICEM in the selection, processing, reception and placement of migrants in the Latin American countries. Over one-third of the total annual movement out of Europe is presently moving under ICEM's auspices. The voluntary agencies interested in migration are playing an increasingly important role in securing the emigration of individuals not included in the mass schemes of recruitment of the receiving countries.

The Mutual Security Appropriation Act for 1955 (Public Law 778) included a limiting condition on the appropriation for ICEM to the effect that none of the funds appropriated can be used for assisting directly in the movement of any person to the Western Hemisphere who has not had a security clearance based on reasonable standards. This condition was repeated in the MSA Appropriation Act for 1956 (Public Law 208, 84th Cong.). During 1955 the Department of State arranged with ICEM for the establishment of special clearance procedures to comply with this condition attached to the United States contribution. These procedures have been checked from time to time and have been found to be effective.

The request for appropriation in fiscal year 1957 to cover the United States contribution to ICEM for the calendar year 1957 is in the amount of \$12,500,000; \$839,467 to administrative expenditure or 30.87 percent of the total of \$2,719,154 allocated to member governments and \$11,660,533 to operational expenditure, constituting approximately 41 percent of the estimated cash contributions of all governments to such expenditure. The estimate of the total movement for current year 1957 is 145,550, including 59,160 to Australia.

# INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION—MOVEMENT OF MIGRANTS

## Comparative summary of movement of migrants

From	Actual, calen- dar year 1954	Actual, calen- dar year 1955	mate	Esti- mate calendar year 1957	То	Actual, calen- dar year 1954	Actual, calen- dar year 1955	mate	Esti- mate calendar year 1957
Austria Germany Greece Italy Netherlands Trieste	6, 411 34, 931 11, 775 48, 263 1, 274 5, 735	12, 321 21, 888 14, 056 45, 852 12, 701	13, 775 29, 435 10, 650 43, 130 18, 410	15, 320 22, 820 13, 450 60, 680 23, 630	Argentina	29, 309 37, 773 16, 336 21, 294 814	15, 208 53, 773 8, 919 8, 865 1, 033	11, 005 50, 525 10, 350 7, 515 1, 350	16, 005 59, 160 16, 670 9, 505 3, 020 1, 500
Near and Far East.	1, 450	594	970	570	Rhodesia and Nyasaland. Israel New Zealand United States. Uruguay Venezuela	1, 037 7, 246 5, 307	1, 220 20, 521 2, 790 4, 973	1, 450 1, 030 1, 850 31, 510 1, 800 5, 605	1, 020 4, 000 15, 080 2, 550 9, 700
Others	11, 383	13, 030	9, 530	9, 080	Others	2, 106	3, 140	1, 910	1,840
Total	121, 222	120, 442	1125, 900	1145, 550	Total	121, 222	120, 442	1125, 900	1 145, 550

<sup>&</sup>lt;sup>1</sup> Does not include proposed special projects involving the movement of approximately 10,000 Eastern European refugees.

Senator Green. If there is no further business, the meeting stands adjourned.

(Whereupon, at 4:55 p.m., the committee was adjourned.)

### MUTUAL SECURITY ACT OF 1956

### MONDAY, MAY 14, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS. Washington, D. C.

The committee met, pursuant to recess, at 10:35 a.m., in the Caucus Room, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Fulbright, Humphrey, Mansfield,

Wiley, Smith of New Jersey, Aiken, and Capehart.

Also present: E. Perkins McGuire, Deputy Assistant Secretary of Defense, International Security Affairs.

The CHAIRMAN. The committee will come to order.

The first witness this morning is the Honorable Charles E. Wilson. the Secretary of Defense.

He will be followed by Admiral Radford, Chairman of the Joint

Chiefs of Staff, on the mutual security program for fiscal 1957.

We would prefer, and if it is agreeable to both the Secretary and Admiral Radford, to have you make your statements prior to any questioning. It will expedite our thinking this morning if you will finish your statements before you submit to any questions.

Is that agreeable?

Secretary Wilson. Yes, sir.

Admiral Radford. Yes, sir.

The CHAIRMAN. You may proceed. Do you wish to proceed, Mr. Secretary?

Secretary Wilson. Yes, Mr. Chairman.

The CHAIRMAN. You may proceed with your statement.

### STATEMENT OF HON. CHARLES E. WILSON, THE SECRETARY OF DEFENSE

Secretary Wilson. Mr. Chairman and members of the committee; I appreciate this opportunity to discuss the mutual security program for fiscal year 1957. Before doing so, however, I would like to express to the committee the real sense of loss which I share with the American people when I learned last week that Senator George would retire from the United States Senate at the end of his present term of office.

We all recognize the great contribution that Senator George has made in the development of our foreign policy during his long years

of service in the United States Senate.

### PROGRAM A PART OF OVERALL DEFENSE EFFORT

Within the Department of Defense the military assistance program is one of our most important activities and is closely integrated in our planning for our overall defense effort. It has received the close attention of the Joint Chiefs of Staff and the senior civilian and

military personnel in the Department of Defense.

There are many ways in which the United States contributes to the defense effort of the free world, and there are many ways in which the other nations with whom we are allied in this effort contribute to our mutual defense.

Some of our allies, of course, make a direct contribution to the defense of North America. The great effort of Canada is particularly noteworthy. Without the cooperation of the Canadians our own military effort would be seriously jeopardized. Some countries which are strategically located have made sites for bases available. These bases are integrated into our defense plans.

Economic resources of many of our allies, of course, do not permit them to maintain alone the defense establishments which manpowerwise they are capable of doing. Therefore, our military mutual security program is one with many varying forms of assistance, but it is

a program which can truthfully be described as a mutual one.

During the past year the Department of Defense has given the administration of this program a high priority and we are taking measures to strengthen our organization. Perhaps you could almost think of our military assistance program as a separate "service," although, of course, the execution of the program is to a great degree handled by the Army, the Navy, and the Air Force.

This program has been carefully reviewed by the military services and the Joint Chiefs of Staff who have participated in its preparation. It is an integral and important part of our overall security system. This program has been coordinated with the State Department and the

International Cooperation Administration.

The new obligational authority we are recommending for mutual security for the next fiscal year is consistent with the longer term recommendations of the Joint Chiefs of Staff which developed from their meeting in Puerto Rico in March.

The planning and execution of this program, as far as the Department of Defense is concerned, has been delegated to Mr. Gordon Gray, Assistant Secretary of Defense for International Security Affairs.

Mr. Gray has already appeared before your committee and explained in some detail the appropriation that we are recommending. Admiral Radford is here with me today to make a statement with respect to the importance of these programs. I would like at this time to reemphasize some of the points which Mr. Gray has already discussed with you.

In all of the countries for which we have recommended programs we have based our recommendations upon our appraisal of their military needs and capabilities and how they fit into the free world defense effort. Therefore, there are many countries for which both military

and economic programs are being recommended.

In those countries for which both types of assistance are planned, the military and economic portions of the program go hand in hand. Some countries can only support their military forces with the economic aid that we supply in the form of defense support.

### MILITARY AID SERVES UNITED STATES DEFENSE NEEDS

I firmly believe that money spent at this time for military assistance to our partners in the defense of the free world is money spent effec-

tively for the defense of the United States.

I should like to speak briefly about the value received for our military assistance money. Today we are helping to support approximately 200 divisions in the armies of our allies. This force is several times the strength of our own Army. Our support also helps to main-

tain important strength in Allied air forces and navies.

The military assistance program and the forces it helps to support are very definitely taken into account in determining the requirements of our own Defense establishment. I am certain that without the support our allies and partners give us we would in all prudence need to increase the size of our own Armed Forces at a very much greater cost in manpower and in money. To cut military assistance materially at this time would present serious risks to the defense of the United States and the free world and would require a complete reevaluation of our international position and of our own military budgets.

There is one new feature in the 1957 program to which I want to draw your attention. I refer to the request for about a half billion

dollars for advanced weapons.

### ADVANCED WEAPONS

By the term "advanced weapons," we mean weapons such as high-performance aircraft and missiles, and supporting equipment, particularly early warning and communications equipment. This equipment has been developed since World War II and we are now modern-

izing our own forces with it.

Since much of this equipment is of very advanced design, it is vitally important that we begin as soon as possible to furnish initial quantities to selected areas in order that our allies can develop the especially trained personnel required to permit effective use. It would be difficult, if not impossible, to teach the technology of advanced weapons to the required number of personnel after an emergency arises.

Many of the new items programed for this year will not be delivered until fiscal year 1959 but, because of the lead time involved, they must

be ordered at this time.

The question of where to put these new weapons is under careful study now by the Joint Chiefs of Staff so that we can obtain the most effective contribution to our own and allied security. Scientific developments and production schedules in this field are constantly We will keep this program under constant review in order to take advantage of opportunities for improving and modernizing it as they arise.

The United States has in this continuing program taken a major step to strengthen the common defense of the free world against This decision was designed to prevent war by replacing with a substantial measure of strength the weaknesses of the early postwar years, which might have led an aggressor to believe he could have achieved an easy victory.

More important perhaps than the actual military strength so far generated has been the increase throughout the free world in the determination to resist aggression in any form.

The strength which has been generated is not strength for aggression but in the interest of world peace. Our own strength effectively combined with that of other free peoples is our own and their greatest guaranty of security.

The CHAIRMAN. Admiral, we will hear your statement if you wish

to, and then perhaps you could answer questions together.

# STATEMENT OF ADM. ARTHUR W. RADFORD, USN, CHAIRMAN, THE JOINT CHIEFS OF STAFF

Admiral Radford. Mr. Chairman and members of the committee, I appreciate this opportunity of appearing before you on behalf of the Department of Defense in support of the mutual security program

for fiscal year 1957.

My remarks have been directed to that portion of the program over which the Department of Defense has primary cognizance. Although the importance of economic assistance will be dealt with by others, I would like to point out that in certain countries economic assistance

is essential to a sound military program.

In January I completed a trip around the world. The object of this trip was to familiarize myself with current conditions, and to discuss mutual problems with leading men in the areas visited. I found a number of serious problems. In the year that has passed since I was last in those countries, there has been in some of them a subtle but perceptible change in atmosphere. In some cases doubt and confusion have replaced a firm resolve. I attribute this situation to a twofold influence:

First, the success of the latest Communist tactics and, second, a less

dynamic approach by the United States in the same areas.

It is my understanding that there have been proposed certain amendments to the mutual security legislation which are designed to provide greater flexibility of administration and to facilitate a more dynamic approach to our problems.

### NEED FOR FLEXIBILITY

Although it is not my function to discuss the legal details, I feel that the administration of a program of this type must be adjusted

flexibly to meet new situations as they arise.

While there is little new in Communist aims, there has been an important new development in methods being used. For the present, the Communists seem to be relying on programs of economic, military, and technical assistance. The tactic of violent revolution and overt aggression having become too hazardous; they turn now to still another.

I believe that one of the most important reasons for this change in the Communist line has been the success of our country, in conjunction with our friends and allies throughout the free world, in creating a military posture with which Communist forces are becoming less willing to challenge.

It is also my opinion that the defense alliances, made possible in many cases by our previous mutual aid programs, constitute an im-

portant part of this deterrence.

None of us believe that long-range Communist objectives have changed a bit.

They have been, are, and will continue to be the strengthening of Communist power and influence wherever possible, and the weakening of the position and power of the free world. Because time means little to the Communists, so long as they can make some continued successes, they feel free to shift the means whereby they achieve their objective.

If by taking a different tack they can slow down or reverse the building of strength in the free world they will have moved a con-

siderable, though slow, step forward.

### COMPLACENCY MUST BE AVOIDED

This brings me to the major point I would like to make today. We must not allow ourselves or our friends in other free nations to fall into the trap that is being staked out for us. We have been successful, despite many setbacks, in building up military strength in the exposed

areas of the free world.

The latest change in Communist tactics is ample proof that our military-assistance programs have had the desired effect. We should not now be lulled into complacency. It would, in my judgment, be ill-advised to lessen our efforts to strengthen the defense forces of the free world. We would be playing into the Communist hand if we failed to show clearly that we understand how important it is that the free world remain strong and invulnerable to the Communist exploitation of force.

Military aggression will continue to be a potent weapon in the Communist arsenal, one which they would not hesitate to use whenever it would gainfully suit their purpose. They would be happy to find the free world military posture deteriorating as a result of our pre-

occupation with their current maneuvers.

### SOVIET MILITARY STRENGTH

The Soviets are making a great deal of noise about peace, but I find ample evidence that they are striving to the best of their ability to build their own military capabilities to the highest possible levels.

All through the Soviet Communist bloc this rapid modernization and buildup is continuing. Regardless of whether or not some modifications in the sizes of their forces are taking place, there is no question but that the flow of more modern and efficient weapons and equipment is continuing at a steady, if not increased, rate.

The imminence of introduction into Soviet armed forces of nuclear weapons, a wide range of guided missiles, efficient bombers and fighters, and new tanks and transports is the plainest proof that the Communist dictators have not and do not intend to abandon the use of

force whenever they feel it will best serve their ends.

The military-assistance program before you for authorization this year amounts to about \$3 billion. This is substantially larger than last year's request for authorization, but I am sure that you, gentlemen, best of all realize that the reduced requests of last year were permitted by a sizable backlog which enabled us to maintain a steady flow of military assistance deliveries to recipient nations.

Gauged by the current situation and by the increasing demands of technological advance to continue the modernization of free-world

forces, I believe that this year's request is not excessive.

On the contrary I believe that any substantial reduction in this request would have seriously adverse effects upon the continued building of military strength in the free world and, at the same time, would

have equally dangerous psychological repercussions.

I do not intend to imply that all other means of combating communism should be subordinated to the continuing needs for military assistance. I do submit, however, that the contrary, that is a subordination of military assistance to these other means, would

be equally wrong.

The military assistance program for fiscal year 1957 has been thoroughly coordinated with overall United States military planning and is approved by the Joint Chiefs of Staff. The program is designed to achieve the same objectives as our own military program and is an essential part of the defense of the United States and of the free world. In planning military programs of the United States the existence and scope of the military assistance program is fully considered.

There is no duplication. They supplement each other. Both are essential to our own national defense. By the cooperation of our allies, we obtain a far better defense at lower cost to ourselves than

if we tried to do the job alone.

### NATO PROBLEMS

Let me briefly discuss some of the problems brought out on talks during my recent trip. My first stop was in Paris where I discussed NATO problems with a number of commanders and national

NATO has some very serious problems of a basic nature. European countries are seeking guidance as to the direction their defense efforts should take. It is my conviction that we must by our example provide them with strong leadership. We must impress upon NATO councils that the surest guaranty against Communist use of force is being so strong that force will not achieve Communist ends.

Our military assistance programs should assist the cohesion of NATO, especially in providing initial increments of advanced weapons necessary for maintaining a relative position of strength against the improving Communist arsenal. I need not spell out to this committee the great importance of the NATO area to the security of the United States.

### MIDDLE EAST PROBLEMS

The situation in the Middle East is different in nature and far more difficult. The nations of the newly formed Baghdad Pact are looking to us for guidance and assistance. They are hopefully allied with the free world and are concerned with a Communist threat to their rear. We must insure that this political and military alinement receives the support necessary to increase in strength and become eventually an example of free world solidarity among middle eastern states.

I found, however, that the peoples in Iran, Iraq, and Pakistan were beset with doubts. Pressures are being brought to bear on them not only from the Communist world, but from some of their own neighbors. They are anxious to remain firmly alined with the free world but they need assurance of our continued support.

I am convinced that we must continue to give our full support to the Baghdad Pact in order to dissolve any remaining doubts in the minds of the northern tier peoples. This will also serve to demonstrate our firmness of resolve to the other states in the area. I do not consider it to be beyond the bounds of reason that this new Soviet threat will become plain to all the states of this area and will be rejected by them.

#### THE FAR EAST

The Far East also presents us with many problems. In North Korea, the Communists have been steadily modernizing their forces, in flagrant disregard of the Korean armistice. Our stalwart ally, the Republic of Korea, has created with our help one of the finest armed forces in Asia—armed forces dedicated to and tested in the preservation of the freedom of their country.

The economic weaknesses of the Republic of Korea, resulting from the bleeding effects of the war, make the maintenance of these forces an impossibility without our help. We must continue to support adequate South Korean forces, costly though they may be, to keep faith with their men and ours who gave their lives in the cause of the free

world to save that country.

The forces of the Republic of China are under the continuing threat The Communist buildup of modernized forces, jet aircraft, long-range guns, and naval forces including amphibious craft opposite Taiwan and the offshore islands is one of the most obvious of all the examples in the world that the Communists have not abandoned aggression and the threat of aggression as a basic instrument in their policies.

We cannot fail to provide adequate support to the Republic of China's forces without appearing in the eyes of all Asians to be back-

ing down in the face of this blatant threat of force.

### THE SEATO AREA

In the SEATO area of southeast Asia the situation is troubled. There have been intermittent hostilities in Laos. There is the veiled

threat of armed intervention from Vietminh in the affairs of Vietnam. In this area of southeast Asia, where there is little indigenous power, the threat of Communist force is a hidden backdrop to the vast subversions and enticements that the new Communist line is focusing on that area.

We must not fail to meet the complicated challenge extended to us. If we fail in our efforts to help these underdeveloped, struggling nations to achieve acceptable standards of economic and military strength, there will be progressively serious repercussions in all the free areas of Asia and eventually in all parts of the world.

#### IN SUMMARY

The military assistance program for fiscal year 1957 if approved, will accomplish three things: (1) It will protect our previous contribution to free world security by helping our partners to keep up the quality and combat effectiveness of equipment already furnished; (2) it will provide an increment (about \$30 million) of advanced weapons and equipment to enable better defense against improved arms in the Communist camp; and (3) it will continue in some cases the buildup of the weapons of free world nations still unprovided with desired equipment levels.

The program is austere to the degree that any major reduction would require a complete restudy of our own military program. In this regard, let me point out that the entire United States military program is based upon the assumption that we will have capable

allies.

Also we must realistically accept the fact that many of our friends are not yet economically capable of the long-range sustained effort

required to maintain acceptable military capabilities.

For this reason, it is essential that the United States plan support for these countries on a continuing basis. Military skills do not develop overnight. The means for their creation cannot be turned on and off like a spigot. If we are to retain uniform strength and be eternally vigilant against Communist use of force, our plans must be projected well into the future.

It is important that our friends be aware of our intentions and be able to coordinate their plans with ours. These are some of the reasons why I believe that the Congress should approve the concept of a continuing military-aid program and appropriate no-year money for

its implementation.

There are many valid reasons why it is more advantageous for us to assist our allies in maintaining their own national forces, especially ground forces, than it is for us to attempt to provide United States soldiers in the absence of those forces.

Besides the lack of such unlimited manpower resources that would

be required, the costs would be prohibitive even for this country.

In addition there is a psychological question of national pride and will to resist communism that is most important. Furthermore, our support under the military assistance program has in effect supplemented much larger expenditures by many of our allies.

In the aggregate I am convinced that our mutual security program is our best instrument for building up and maintaining the collective

strength of the free world for the common defense.

The CHAIRMAN. Thank you very much, Mr. Secretary and Admiral.

Senator Smith, have you any questions?

Senator Smith. Mr. Chairman, I have questions I can ask of both Secretary Wilson and Admiral Radford.

### AID CONTRIBUTES TO UNITED STATES STRENGTH

I understand, Admiral Radford, from what you said, that of the \$4.8 billion roughly you are asking overall for the program this year, about 3 billion is for the military aid; is that correct?

Admiral Radford. Yes, sir.

Senator SMTH. I understand also that Secretary Wilson said in his testimony that the divisions abroad are more than the strength of our entire Army?

Do I correctly understand that?

Secretary Wilson. Several times more. Senator Smith. In other words, we have a great armed force throughout the world to protect the free countries. We are making our contribution to that and of course the other countries are contributing their share in that buildup?

Secretary Wilson. That is correct.

Senator Smith. I also understood you to say, Secretary Wilson, as I have heard before, that you have added roughly \$500 million to this program for new advanced weapons.

Secretary Wilson. That is right.

· Senator Smith. And also that you wish to carry out the program

with what you call flexibility.

That means that without those new advanced weapons, the sums requested this year would have been approximately 21/2 billion?

Secretary Wilson. That is correct.

Senator Smith. Now this overall question I would like to ask.

I guess Admiral Radford is the best one to answer it.

### SOVIET AIR STRENGTH

Are the Soviets really ahead of us in their overall air strength? I am asked that question constantly and I want to get an authoritative answer from both of you gentlemen.

Secretary Wilson. Will you state the question again?

Senator Smith. Are the Soviets really ahead of us in overall air

force, air strength, air attack, jet planes, and whatnot?

People seem to think from reports going around that we are behind and we ought to build up more, that we are lacking in air strength, which is so important.

Secretary Wilson. The problem is always complicated by this ques-

tion of numbers and the question of quality of the different forces and

their degree of readiness.

I think that if you review the testimony of most of the people that have spoken to this point, they say that at present we are ahead of them.

What people are talking about largely is where they think they might be by 1960. The argument is whether they are gaining on us and how rapidly they are gaining on us. And I think the best answer I can give you to your question is that we have superiority now.

Inside the family we think we can maintain that, but not a great big superiority. There is no way that our country can stop the industrial

development of Russia. It is a big land.

Now it is building up a scientific background and productive facilities, and it is going to build up as an industrial nation in the world. If we had twice their power we still would not solve the problems of the world.

I would be very worried, of course, if they had power twice ours, because as a dictator nation they might be tempted to use it, so that I am sure our policy is to keep strong relatively as times goes on.

Admiral Radford might take a try at answering the same question.

Senator Smith. I am asking this question because I want to be sure, from a layman's standpoint, that I am on sound ground in giving my

answer to the many people who put the same question to us.

Admiral Radford. Senator Smith, as of today I do not think that the Communist nations have superior airpower. I see no reason why they should attain that position. I believe that we will be able to stay ahead of them. The reasoning behind this statement I would be prepared to give in detail to the committee in executive session.

Senator Smith. We will probably have further questions in execu-

tive session.

Mr. Gray gave us some information, of course.

### TOTAL DEFENSE BUDGET

If the figure you are recommending, the military figure, is 3 billion, and the total approved by the House for our overall military establishment is \$36 billion, that means a total of \$39 billion; am I correct in that, for both?

Secretary Wilson. Yes; when you include the construction in our own defense budget. It is divided up in two pieces which the House

handled separately.

One is the public works and the larger is the balance of it, the total of the 2 is 36.2.

This is about 3 billion more, which is 39.2 or 39.1 billion.

Senator SMITH. I am asking that question because the amount of this foreign assistance bill is relatively small compared with our overall appropriations for our defense effort.

Some people say, "Well, why do we give so much money for this military foreign aid," and they compare that with the sums for non-

military purposes.

Of course, I am very much interested in the nonmilitary, too; but it does not seem to me as a layman that \$3 billion for holding our allies together and contributing to their needs is a large amount com-

pared with our overall defense budget.

Secretary Wilson. Of course, some of the nonmilitary is also tied in in many cases. Without one you could not have the other. Most of us think that somewhere around 10 percent of the total is a very reasonable sum to put into the support of our allies, the military assistance program in total.

If you look at all the expenditures back of achieving security for our country you must include the Atomic Energy Commission's ex-

penditures in large part.

There is a small amount of it for commercial purposes and other uses for atomic energy, but the large part of it is military expenditures.

So you are getting a total of well over \$40 billion; it approaches 45, when you include everything. It is a great sum of money to be spending for the purpose, but I am willing to say that I think it is the right amount.

### INCORPORATION OF MILITARY AID IN DEFENSE BUDGET

Senator SMITH. Well, you are arguing from the standpoint that our

security is the first thing we have got to think of.

Now this question is asked frequently, Mr. Secretary, and it has been brought up in our committee a number of times. Would it be wise

to put the whole military assistance fund, this foreign military assistance fund, under the regular Defense Department budget rather than

carrying it separately as we have for the last few years?

In other words, how do we justify carrying this item separate from our own defense budget and tying it up with the nonmilitary aid fund, rather than carrying it right in the defense budget and having it handled right in the Pentagon!

Secretary Wilson. As far as the Defense Department is concerned. we would handle it the same way in either case. It is largely a matter

of which committee handles the review of it.

Since it is so closely involved with our international relations, I see no reason to change the present arrangement. What I am trying to do in the Defense Department is to set up military assistance as if it were a separate service, so that it is more objective and that it is not in any sense treated in a lefthanded manner by the three military departments.

While we get a total amount for our defense budget, it is earmarked separately for the Army, Navy, and Air Force, and I have no authority to move money appropriated for any one of the services into the

other service.

I do have a small emergency fund in the Secretary of Defense's Office, but it is nothing compared to the total. So there is no flexibility between the three services now, and there is no reason that I see why we should ask to be able to move money from the military assistance program into any of the other services. We would actually administer this program in the same manner no matter which committee of the Congress first reviewed it, and since the Congress as a whole finally has to approve it anyhow, it does not seem to me to make any difference, except that the men who pass on it initially on the committees may understand more easily the impact of international affairs on this particular part of defense.

Senator SMITH. Of course as a member of the Foreign Relations Committee I am happy to have it handled this way. But this question has come up so many times I ask you if you are thinking in terms of

amalgamating the whole business?

Secretary Wilson. I am not thinking of changing it, but I am thinking of trying to improve the administration of it in the Department of Defense.

Senator Smith. That is a very fine answer.

Now is it correct, Mr. Secretary, that the proposed fiscal 1957 military assistance program is made up on the basis of assumed level of forces in being during 1957?

A further question would be this to clarify the first question: Has your estimate of those force levels changed since last fall when these budget requests were prepared? Secretary Wilson. No; it has not.

Senator SMITH. They are all the same. You don't think there has been any change since?

### EFFECT OF PRICE FORMULA ON BUDGET REQUEST

Is it correct that the proposed new pricing formula for transactions between the military departments and the mutual defense assistance program was developed after the 1957 authorization request had been made up?

If so, is the request larger than necessary in view of the new pricing

That sounds complicated, but I think you understand what we are

driving at.

Secretary Wilson. I think you are referring to the question of when we supply MDAP equipment that we already have, either in our mobilization reserves or in our own forces.

The present policy is to turn it over to the military assistance side

of the family on the basis of replacement cost.

In other words, if it costs us more to build a new tank than the tank cost that we were putting into military assistance, we would charge for the old tank the cost of building a new one.

Most of us think that is not quite right, that we ought to consider obsolescence and market value and so forth. In some cases our allies

are not too enthusiastic about getting the obsolescent material.

It is, I guess, like passing off your clothes to your poor relations.

They may take them but they don't enthuse much over them.

Senator SMITH. Even the younger brothers do not enthuse over getting the older brother's clothes.

Secretary Wilson. That is right.

### USE OF MDAP MATERIEL IN NORTH AFRICA

Senator Smith. Now here is another question I have been asked

to present to you.

To what extent have arms and supplies furnished by the United States to France been used by the French to combat north African nationalities?

And have not the NATO defenses been weakened by this? And how does it serve the United States' interests to allow such use of these

supplies?

If you think that should be asked in executive session I shall hold it. Admiral Radford. I can say, generally, that a large part of the equipment that has been furnished France, the heavy equipment, is not particularly suitable for their operations in north Africa. the second part of your question, the defenses of NATO have undoubtedly been weakened by the withdrawal of French forces into north Africa.

In case of a general emergency, however, these forces could be

rather rapidly redeployed, which makes it less serious.

To go into any details on this subject, I would have to ask to be allowed to answer in executive session.

Senator Smith. Then I won't ask you anything further on that.

### RELATIONSHIP OF MILITARY ASSISTANCE PROGRAM TO OTHER DEFENSE OPERATIONS

I have another question here.

In his mutual security program message, President Eisenhower said "The mutual security program is a demand of the highest priority upon our resources."

The question is: Is it not true, however, that the military assistance program has a relatively low priority for allocation of current production within the Department of Defense?

A further question: Is it true that Assistant Secretary Gray, who is in charge of the military assistance program, does not participate in meetings of the groups in the Pentagon which allocate current munitions production?

Secretary Wilson. I think rather than a question of priority, it is more of a question of administration, and effective organization of the

business.

The program has blossomed up like a green bay tree, starting with nothing in 1950, and perhaps not with the full realization that it would be more than an emergency, one-shot, program. And it is obviously not that.

Once we have a program, we can carry it out in this country, as long as we plan it far enough ahead and make it clear to everybody what

they are supposed to do.

Part of the difficulty with military assistance is that it is not quite

a unilateral business on our part.

We have to work out many of the relations with the foreign coun-

tries in our own defense.

We have to make sure that we just do not dump a lot of material on a wharf in some other nation and have it not looked after and spoil, so the question of their developing their technique and training their people to handle the equipment is part of it. Sometimes we get into the problem of which came first, the chicken or the egg, you know.

Do they get ready for it before we give it to them or do we give

it to them and then let them build up?

We have mutual problems that have to be worked out.

Senator Smith. Thank you.

I am very glad to hear that, because I am asked that question quite frequently.

### REVERSE TREND IN MILITARY ASSISTANCE

Now we have an unclassified presentation book before the committee. The chart on page 17 of that book shows a steady decline in military assistance shipments from 1953 through 1955.

The question is is it now proposed to reverse this trend?

And if so, why?

Secretary Wilson. We think we can build it up some. The first shipments were largely of what we call conventional weapons.

They were out of stockpiles and maybe even surpluses from World War II. Now the weapons needed are distinctly different. They are the newer kind of things.

Most of the men under arms in these various countries have got the ordinary rifles and machineguns and some reasonable amounts of ammunition and some artillery and a few tanks and things like that.

Now it is some of the other weapons that are needed. In discussing our budget—not just the military assistance budget—there are three

different items that are confusing:

When we talk about the budget, there is the question of the new obligational authority, the new money that is being requested. That is this approximately \$3 billion. Then, there is the question of how fast you are going to spend the money; that is a combination of authorization previously granted that is still unspent, plus the new money.

Then there is a question of what your program really is, how much you are going to obligate, what are you going to contract for.

We cannot make the contracts and obligate the money unless the

Congress has given us the authority to do so.

So we always have three things that I try to lay out and think about: How much money we are asking for new obligational authority, what the program is, what we expect to contract for with relation to the authority of the past plus the new one, and then what current drain does that make on the Treasury in the rate of paying bills.

Those are really three distinct things. They ultimately come together down the road to some degree, but in any particular year they

can be greatly different.

Some people are confused over the fact that the new obligational authority was so low last year, but it was low last year because we had carried over funds that had not been spent because of changes in the world situation.

A good example of that was the windup of the shooting in Indo-

china

We had been pouring a good bit of money over there in military assistance, so we have to think of it in terms of those three different sets of figures.

Senator Smith. Mr. Secretary, I am very grateful to you for the explanation you have given us on these points, and Admiral Radford

also.

Personally I want to congratulate you both on what I feel is the wonderful job you are doing for your country at this time and the great skill and care in which our armed services program is being carried on.

Mr. Chairman, that is all the questions I have at the moment.

The CHARMAN. Senator Fulbright?

Senator Fulbright. Mr. Secretary, there are 1 or 2 points.

### PRICING FORMULA

I did not quite understand about the new pricing.

Have you arrived at a new pricing formula on these weapons? Secretary Wilson. I think it would be helpful if I let Mr. McGuire, who has this in hand, answer the question for you.

Mr. McGuire. We are requesting, Mr. Senator, that the pricing

of our equipment be made on two bases.

One is for that type of equipment which is commonly bought by the services from one another; that type we would buy at the same price.

The other is for equipment which normally is not bought by one service from the other services; on that type, the price would be

determined on the basis of value and condition.

Another factor that you should recognize in our request is that we do have a very substantial advantage now in this program on the purchase of equipment which is excess equipment; and we want to maintain that advantage.

We do not want to change that.

Under the proposed law, the pricing formulas would continue as they are at present until the Secretary of Defense determines the new pricing formulas. The present law provides that when MDAP buys an item from a military department, it is priced at the replacement cost of that item. We believe that the new pricing formula will make the MDAP dollar go further.

It will be an advantage to this program.

Senator FULBRIGHT. If I could try to simplify this so that I could understand it; heretofore you have been pricing war machines, let's take a tank for example, at its replacement cost when a tank is turned over to one of the participating countries; is that correct?

Mr. McGuire. Yes, sir.

Senator Fulbright. And now the new formula is to make allowances for depreciation?

Mr. McGuire. Well, allowances would be made for the condition

and the market value of the tank.

Senator FULBRIGHT. Has that new formula gone into effect?

Mr. McGuire. No, sir; we cannot put it into effect under the present law.

That is why we are requesting this change.

Senator FULBRIGHT. Is there authority in this bill to give that authority?

Mr. McGuire. That is what we are seeking.

### EFFECT ON SUMS REQUESTED

Senator Fulbright. Was the estimate, the request here based upon the existence of the old law, the old formula?

Mr. McGuire. The request was made on the basis of the old formula. We could not use the new formula until we were given permission to

do it, sir.

Senator Fulbright. Then wouldn't it follow that if we give you that authority, this estimate could well be reduced because you are going to reduce the price and therefore there would be a substantial reduction in the amount of money necessary to get an agreed amount of material?

Mr. McGuire. I seriously question whether the effects of it would be felt until possibly the end of fiscal 1957.

It is quite a job to price all of this material.

However, we recognize your point, but reductions would apply, of

course, only as deliveries were made.

Once the new prices are established, we will have to determine for all of the program remaining undelivered what the savings would be and seek the advice of Congress as to how we should use those savings.

Secretary Wilson. If we did make some savings, they would show

up in our total of unexpended funds.

Perhaps for 1958 or 1959 we would not have to ask for quite so

much money.

That has happened before. The request for 1955-56 was low—down to \$1 billion for military assistance—because we had obligational authority that for one reason or another had not been applied and spent. Hence, we had enough credit in the bank, so to speak, to operate on.

And this thing you are talking about will wash out as time goes

on.

I mean, that the military problem can be solved by X number of semiobsolescent weapons that are quite usable and good, or X minus something for newer weapons. This is both a military problem and a dollar problem. Appropriation of dollars alone does not necessarily solve the military problem.

You have to select the equipment that suits the particular military need of the nation that is getting the assistance, considering their

ability to use it, and train their people.

Sometimes the simpler and older weapons that are quite effective are easier to handle for people that have not the technical background and experience that most Americans have.

### ARMS TO PAKISTAN

Senator Fulbright. Mr. Secretary, do you consider that it is a matter within your competence to evaluate the effect upon India of very large shipments of arms to Pakistan?

Is that a matter you think you should evaluate and take into con-

sideration or not?

Secretary Wilson. I will give you my own personal opinion and you can ask the Admiral the same question.

I do not think it is my primary responsibility, but I think I am

on a need-to-know basis.

I think it is largely a State Department matter, but I think I need to know and understand what is going on.

How do you feel about it, Admiral?

Admiral RADFORD. I feel the same way, Senator.

Senator Fulbright. Well, if it should appear to this committee that large shipments of arms to Pakistan nullify whatever beneficial effect may flow from our economic assistance to India, do you think we would be justified in suggesting the arms shipments to Pakistan be reduced?

Somebody has to make that decision.

If you don't feel it is your responsibility, then either this com-

mittee or somebody should make that decision.

Secretary Wilson. I think that the State Department has the first responsibility of appraising the relations between nations, other nations of the world than our own and the impingement of our activities, one nation with another.

We have to understand it, though, to properly carry out our responsibilities. I think, as a hypothetical question, Secretary Dulles would be the one to try to answer it for you rather than the Defense Department.

Senator Fulbright. I wondered whether or not you felt it was your responsibility or took the attitude that the responsibility rested else-

where.

You are for the proposition that any of these allied countries should receive all the arms you think they can efficiently absorb, support, and utilize—that would be your attitude.

utilize—that would be your attitude.

Somebody else would make the judgment as to whether or not such shipments would be justified by the relationship that has grown up

between India and Pakistan.

Secretary Wilson. We try not to be dumb about it.

Senator Fulbright. Well, we are trying that same thing, but we have difficulty in avoiding that.

Secretary Wilson. It may be the difficulties of the problem itself. Senator Fulbright. We have had very responsible testimony before this committee that the main trouble between India and ourselves

is this arms program for Pakistan.

I do not think there is any secret about that. Other people have talked about it in public. Testimony before this committee has led to the speculation at least that if we continue to send arms to Pakistan then we will force India to resort to Russia or Czechoslovakia for That is what Egypt did for her arms supply. If India were to resort to the Soviet that would be disturbing I think to many of us, India being a rather big country and potentially a strong country, even militarily if she is heavily armed.

Do you think the committee at least is justified in considering that

point in evaluating the arms program for Pakistan?

Secretary Wilson. I would think the committee would do what it

thought was right independent of what I said anyway.

I am a little bit embarrassed to talk about it publicly, not that security is involved, but the good relations with our friends are

It is just as though we all started to take our hair down and discuss

each other here real freely.

Senator Fulbright. Those of us on this side of the table are accustomed to being discussed freely every day. There is nothing new about that.

Secretary Wilson. Well, maybe in 3 years I have not been here long

enough to be used to it.

Senator Fulbright. Well, I have been here 14 years. You will get used to it in that length of time.

### EFFECT OF MILITARY PROGRAM

Admiral Radford, there is one statement in your prepared statement which you read that interests me.

I don't know whether I understand it properly or not.

On page 2 you say that "the latest change in Communist tactics is ample proof that our military assistance programs have had the de-

Just before you say, "We must not allow ourselves or our friends in other free nations to fall into the trap that is being staked out for us," a trap I take it by this change in tactics.

It puzzles me a little just what you mean. You say, "this desired effect."

Was the change in tactics an effect desired by us?

Admiral Radford. Our object of the military assistance program, Senator, has been to generate strength, military strength that would prevent overt aggression; what I was attempting to say in this statement is that we feel that we have been successful in doing that, we have forced a change in the Communist tactics.

Senator Fulbright. Well, if there has been a change—you do not

desire that they set a trap for us, certainly.

Admiral RADFORD. No.

Senator Fulbright. Well, if there has been a change and you take credit for the change, why would that not justify some change on our part in response to a change in their tactics?

Admiral RADFORD. I think it does in other areas.

Senator Fulbright. If I understand it, you interpret that to mean we should increase our military efforts. It would seem to me that logically if we have forced this change, the logical conclusion would be that we should change our tactics to meet whatever their change is, in other words, in the economic field; and I find myself in some difficulty following our logic, that if we desired this change, surely it was something to our advantage.

We desired that they change their tactics. Now they have changed Well, then, there is where I leave you, because you seem to think that, therefore, there is a trap and we must increase our mili-

tary program. That is where I get lost.
Admiral Radford. I didn't say necessarily we had to increase our military strength. I think we have to maintain it. There are places

in the world where we have to increase it.

Secretary Wilson. I think I know the Admiral pretty well, and I might try to interpret what he means by that. He simply meant that he thought we ought to keep our powder dry until we find out what this change really means; that there is no evidence that they have changed their military program, and that so far, enough time has not gone by to really appraise the change.

It looks like they have changed, but we don't want to accept that fact and suddenly go down the road weakening our whole military business, and then find that was just a flip, one of their-what Sec-

retary Dulles calls zig-zag tactics. We don't know.

Personally I hope they are going down the road of industrial expansion and more peaceful development of their country, not to put all their resources into the building of a big military machine.

I do not know yet where they are going.

I have said offhand here, not very long ago, that the most hopeful thing I thought could happen in the world would be if the Russians started building 5 million automobiles in a year and started distributing them to their people and got interested in that, instead of trytrying to build a bigger and bigger war machine.

Senator Fulbright. I do not know—well, we kill more people by automobiles than we do by war. It is a very dangerous weapon.

Forty thousand a year we murder.

Secretary Wilson. A good many people used to get kicked by mules.

Senator Fulbright. Much less deadly.

Senator Humphrey. It depends on what kind of mule.

### MILITARY OR ECONOMIC EMPHASIS

Senator Fulbright. I think your statement is a very understandable statement, but I submit it is not the same as the one the Admiral used. He does not qualify his change. He says the latest change is ample proof that our military programs have had the desired

Well, some people think that the death of Stalin had something to do with the change in tactics. That is, there is some question, at least, as to whether or not the military program deserved all

the credit for whatever change had taken place.

I really don't know whether there is a change or what caused it. We all have our views about it. But you will admit, I think, that it is consistent with your last view that if they have changed, for whatever reason, and are now determined to emphasize economic assistance—like in Afghanistan where they have offered a hundred million dollars credit, or in Egypt where they have offered to build the Aswan Dam, or at least to participate in it—if that is to be their new attack, would it not seem a little slow-witted on our part to continue to build up our military program and neglect to meet that economic challenge? Would that not let them succeed in converting these people by political and economic means so as to gain their friendship and alliance?

Secretary Wilson. I agree that military strength alone won't solve all the troubles in the world, but there are other areas in which

we must work and spend money and be intelligent and smart.

Perhaps I am not as worried about the efforts of the Russians in some of these other areas. I always found out that you could appraise a competitor a little better after he got some dissatisfied customers.

Senator Fulbright. Well, I do not follow that.

Secretary Wilson. Think about it a while.

Senator Fulbright. Appraise the competitor as dissatisfied customers—

Secretary Wilson. After he gets some dissatisfied customers.

Senator Fulbright. In other words, you suggest that they may make a lot of promises they may not be able to deliver on.

Well, I grant that is a possibility, and I want to make it plain I certainly do not take the position, nor does the committee, that it is all one way or all the other. We are confronted, really, with a question of emphasis. There is no one I know of wishing to cut our military assistance or cut our economic assistance. It is a question of balancing, of how much.

And we all recognize, and I am sure you would not deny, that the military have developed some extremely able leaders who are very persuasive, and they have enormous prestige, and they are inclined to sort of overpower everybody else when it comes to a contest for funds in this Government—some 85 percent of the funds requested

for this program.

Secretary Wilson. Some of them have even complained when they did not overpower me in the effort. If you read some of the papers and magazines—

Senator FULBRIGHT. I did not know anyone was even aspiring to overpower you. But 85 percent of this program is for military aid.

Secretary Wilson. Mr. Senator——Senator Fulbright. I just wondered, is that a proper percent?

Secretary Wilson. We think so. We think, after the best analysis of it we have been able to make, recognizing that things are subject to some change all the time, it is a flexible thing—these other people over the world do things that impinge on it, but we think it is a sound thing for the country just about the way it is.

Senator Fulbright. I certainly accept that as a sincere and honest statement in every respect. But there is one further observation: Do you really have the responsibility of making that judgment between the allocation of funds? I mean, you set this down as a military requirement. Whether or not it is justifiable with respect to other requirements, you do not really seek to say. You do not undertake to make a judgment as between the military and the economic or political.

For example, the question I asked you about the Indian situation. You, I believe, very properly said you felt that was not your responsibility; that this is simply your estimate of an adequate military thing if there are no considerations arising from other sources that would be contrary to that. That is about your position, and you do not undertake to make that final judgment; is that a correct analysis?

Secretary Wilson. That is right.

Senator Fulbright. That is all, Mr. Chairman.

The CHAIRMAN. Senator Humphrey?

Senator Humphrey. I would be glad to yield to Senator Capehart.

The CHAIRMAN. Senator Capehart?

### ALLOCATION OF FUNDS TO DEFENSE DEPARTMENT

Senator CAPEHART. I may have a couple of questions here for the Secretary.

Do you handle the allocation of these military funds to these foreign

countries?

Secretary Wilson. The program is worked up by joint effort of the State Department, the Defense Department, and the people who are in close contact with the countries. It is reviewed by the Joint Chiefs of Staff. It is like any other complicated business: We keep talking it over and getting the best facts we can and putting the best final judgment on it.

One of the things we have asked for is considerable flexibility in the program, because it is so difficult to determine what is exactly the right thing to do. And the right thing to do today, by the time you

turn around to getting it done may need to be modified.

We think it is a good program. We think it is an austere program. But we do not think it will waste the Nation's money. If you grant it the way we are asking for it, we think it has enough flexibility in

it to do the job soundly.

Senator CAPEHART. Well, did I understand you to say a moment ago, in answer to Senator Smith's question, that you were opposed to having this money appropriated directly to the Defense Establishment, and thereby having 1 budget and 1 national-defense organization instead of 2?

Secretary Wilson. I pointed out that we do not have one budget anyway; that we really have separate budgets now for the Army and the Navy and the Air Force. I guess we have a separate one for the Marines, for that matter, and we cannot switch the money between those services.

Now, I look at this as a fourth service, in effect, as far as the money is concerned. Money appropriated for this military assistance business should be spent for that, so it won't make much difference to us

how we get the money appropriated by Congress. Once we have it,

we will try to use it to carry out the intent of the Congress.

Senator CAPEHART. If this is a fourth budget, as you state, why should it not be appropriated directly to the Defense Establishment like the other three? What is to be gained by putting it through ICA or putting it through the State Department or putting it through some other organization?

Secretary Wilson. It is closely allied with our foreign policy, very necessarily so. And I suppose the reason it is set up as it is now is that this committee, with its added insight into our foreign policy and relations with other countries, could perhaps better determine the amounts

that should be spent.

As far as I am concerned, I do not care to get into a jurisdictional

dispute between a couple of committees of the Senate.

Senator CAPEHART. Mr. Secretary, I do not think that committees are involved in it at all. You seem to lay emphasis on the fact that the committee would be involved. Well, this committee could handle this matter and authorize the money to be appropriated directly to the Defense Establishment as well as the Department of State.

Secretary Wilson. It is split now between the military and nonmilitary funds. We have told you that we want approximately \$3 billion for the military part of it and a billion eight for the nonmilitary aid

and that is the way we would handle it.

And. as I say——

Senator CAPEHART. Let me ask you this: Are the bases we are building in Spain and Turkey part of this fund? They are not part of this fund, are they?

Secretary Wilson. We just want to make sure we do not add to the

misunderstanding.

Senator CAPEHART. What misunderstanding are you talking about,

Mr. Secretary? Your misunderstanding or mine?

Secretary Wilson. Of all the nice people in the room. The funds for Spain come from three sources. Some of the actual military construction of the bases is in our defense budget, Air Force defense budget, and also for the Navy.

Some of the other funds are in our military assistance program.

Part of that is in return for the base agreements with their country. In the nonmilitary area, we are also helping them some, too. They were very fearful, when we went over there to their country with a fairly big program, that we would promote inflation in their country, and they recognized they would have to produce more goods and services. They had some technical assistance.

They had been partly shut off from the world in the last couple

of decades. And so all three funds are involved.

Senator CAPEHART. That is true in Spain. Now, what about Turkey? We have airbases in Turkey. Were they built with these military funds that we are talking about, or were they built with direct appropriations?

Secretary Wilson. You get into another problem now. With Turkey part of NATO, you get into what we call infrastructure business, where our money goes into more of a common pool along with that of

the other nations; then we may spend part of it in Turkey.

Senator CAPEHART. Let me ask this question, then: Is there any other nation in the world that is appropriating money for such pur-

poses as we are asked to do in this bill? Does England or France? Do they contribute, appropriate money, for such purposes as we are talking about?

Secretary Wilson. They do in NATO, and our Canadian friends

do, and various other nations do, to different degrees.

Senator Capehart. I know they do-

Secretary Wilson. Our country does most of it, largely because we are actually the leader in the free world, and we have such a prosperous, productive nation.

It goes all the way down from that to where they just about balance, and then you have countries that are on the receiving side that are trying to make a bigger military effort than their economy will support.

The Turks are a very good example of it. They are marvelous allies, but they are just coming into the industrial revolution, too, just like the Russians—perhaps not as quickly in many ways and they have a great need to improve the mechanization and the industrial development of their own country, right along with trying to support a big military machine.

Senator Capehart. Well, my question was: Is there any other nation in the world that contributes money in the same way and same

form that we are in this particular bill.

Secretary Wilson. The answer is "Yes" to that. Senator Capehart. Which country?

Secretary Wilson. Canada is the one I think of first. Senator Capehart. Does Canada have a separate appropriation whereby she appropriates money and gives it to  $\hat{\mathbf{X}}$  number of countries

throughout the world, just as this bill calls for?

Secretary Wilson. I do not know how they do it. I know they do They are very objective people; they seem to get a lot done without

making too much fuss about it.

Senator CAPEHART. That is just my point, and I think you will find that they do not appropriate money under the same circumstances we are talking about, but they handle all of their military budgets both for home and abroad, in one budget.

Now, is that not true?

Secretary Wilson. I don't really know how they do it. I tried to say here a while ago that I am quite satisfied with the present way of doing it. I would not say that some other way would not work out, as long as we did it.

I think that the problem is to determine the best way to do it.

#### ONE OR TWO DEFENSE BUDGETS

Senator Capehart. Well, of course, that is the purpose of these hearings, to try to find out the best way to do these things; because, I might well be wrong, but I cannot quite see why we ought to have two military budgets here, or why we ought to distinguish between the defense of this Nation at home and the defense of the Nation abroad.

I was trying to find out whether or not there were any other countries that do it in this way, and my best judgment is that there are You have got a number of experts behind you, and they might be able to tell whether that is true or not. I do not think it is.

Secretary Wilson. I think our great country can follow its own

pattern. I do not care what other people are doing in this area.

And as far as I am concerned, speaking for the Defense Department, as long as we do the right thing and get the right amount of money, and it is clear what purpose it is being spent for, it does not matter

what committee handles it or where it comes from.

Senator CAPEHART. It is not a matter of committee. I am just trying to find out if we would be better off as a nation if we had one military budget, and that the military handled it. Because it seems to me that the responsibility of our defense establishment is to defend the United States, and if they feel they can better defend the United States by spending \$5 billion in X number of countries, I am perfectly willing to have them do it.

Secretary Wilson. I think I can explain it a little more. I think the Defense Department, as such, has just as much to say about this military assistance part of the budget as we do about the Air Force budget or the Navy budget or the Army budget. We work on it just

the same.

Senator CAPEHART. In other words, you think that all we are doing here, then, is just some sort of indirect way of appropriating money for the defense overseas, is that it, and that you have as much control over it at the moment as though you would if the money were appropriated directly to the defense establishment?

Secretary Wilson. We do.

Senator CAPEHART. That may well be true, I do not know. You seem to think it is.

Secretary Wilson. We all think so. Of course, we have the other nations to deal with, so it is a little bit more complicated.

Incidentally, they have their parliaments and people to deal with,

too, so it is more than a little bit complicated.

Senator Capemar. Well, of course, you have this psychological effect in the United States, I think, in respect to this matter, that is, that I think most people have an idea that this money which is being appropriated in this particular bill going to foreign countries is not necessarily for the defense of the United States; whereas I think if it all went into one budget, they would feel better satisfied about the matter.

I think you have got a psychological effect here on the people that

might well be considered.

Secretary Wilson. Well, you gentlemen could weigh that better than I could.

Senator CAPEHART. Well, you are the Secretary of Defense, and

we would like to have your help on the matter.

Secretary Wilson. I am trying to say that we can administer it either way. We do think the money is effectively contributing to the defense of the United States. We think it also effectively contributes to the security of the whole free world.

Those of us in the Department of Defense who study the matter think that the Nation is getting value for the money that we propose to spend, and if we did not have this program, we would have

to completely reassess two things:

One would be our relations with these countries and the kind of agreements we have, and to what degree we could count on them as allies.

And the other thing would be the impingement on our own internal defense budget. We would have to reshuffle the whole business.

# CONTROL OF MILITARY ASSISTANCE

Senator Capehart. Do we lose complete control of the material and the things that we give to these other countries with respect to this appropriation?

Secretary Wilson. The answer to that is "No," we don't lose com-

plete control.

Senator CAPEHART. We do not lose control?

Secretary Wilson. We have agreements with each of these coun-

tries; those agreements are to be carried out.

Senator CAPEHART. Well, for example, we, under this authorization, will sell or transfer to given nations X number of airplanes and X number of tanks and X number of other equipment.

Now, my question is, do we give them title to it, or do we retain

some sort of control?

Secretary Wilson. When we sell it to them, they do have unquestioned title to it; when we give it to them, it is the same thing as far as the title or apparent ownership is concerned, but they have certain commitments with us on how it will be handled and what their future relation with us will be as a result of it. So it is-

Senator CAPEHART. This particular bill calls for \$3 billion, approximately \$3 billion. I presume in that \$3 billion there is a little bit

of everything.

Secretary Wilson. Right.

Senator Capehart. Let's take airplanes, for example: Do we retain title to those airplanes and loan them, or do we give them to our allies?

Secretary Wilson. We give them to them.

Senator Capehart. Do we have any control over the planes after we have given them?

Secretary Wilson. They cannot transfer them to anybody else. Senator Capehart. They can only use them for their own use?

Secretary Wilson. And to carry out the agreement we have made with them.

Senator Capehart. When you said a moment ago we sell goods to them, you mean we give them the money under this authorization, and they buy it?

Secretary Wilson. No, we have sold some military equipment. Senator Capehart. Money of their own, using money of their own? Secretary Wilson. Money of their own.

Senator CAPEHART. But this request calls for the entire \$3 billion to be used in giving them the goods, and we do not give them the goods without any control over it other than the fact that they cannot transfer it to some other countries?

Secretary Wilson. It goes all the way from the food program, the farm surpluses, and so forth; when we give them food and they eat it, it is theirs. There are other things that go clear on up to where we have a great deal to say about what they do with it afterward.

Senator CAPEHART. What do you and the military have to do with

the farm surplus you just brought up?

Secretary Wilson. Well, we work on that, too. That is part of it. That is the way we develop some of the foreign exchange money that we finally spend in their country.

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Senator Capehart. Is that a part of this \$3 billion?

Secretary Wilson, No.

Senator CAPEHART. It is not a part of this \$3 billion?

Secretary Wilson. It is more a part of the economic program.

## PAST SUMS AVAILABLE

Senator Capehart. Yes, that is right. The military budget in this authorization is \$3 billion, and the nonmilitary is about \$1.8 billion, making a total of about \$4.8 billion. How much is there in the pipeline at the moment on military aid? Does anyone have those figures? Or perhaps that has been placed in the record before, has it?

Secretary Wilson. I have a chart here from which perhaps I can

pick up some figures.

Senator CAPEHART. What is the total of military aid at the present time, in the pipeline, that is, the total amount of money that has been appropriated in previous years that has not been spent as of yet?

Secretary Wilson. We estimate \$5 billion as of June 30, the end

of this fiscal year.

Senator CAPEHART. You mean the end of this fiscal year?

Secretary Wilson. Yes. Senator Capehart. 5 billion?

Secretary Wilson. Yes.

Senator CAPEHART. Plus the \$3 billion, which will give a total of \$8 billion?

Secretary Wilson. That is right.

Senator CAPEHART. What was the total amount spent last year, actually spent?

Secretary Wilson. Will you ask that question again? I think I

can answer it.

Senator CAPEHART. You just said the total amount in the pipeline is \$5 billion, and with the \$3 billion this year would make a total of \$8 billion in the pipeline under the present appropriation. my question was: How much was actually spent last year?

Secretary Wilson. We are expecting to spend \$2.2 billion in

Senator Capehart. Up to June 30?

Secretary Wilson. That is right. Senator Capehart. In other words, this last year you spent about 25 percent of what is in the pipeline, plus this present authorization.

Is it a fair assumption to say, because many people are criticizing the size of this military request of some \$3 billion, that one of the reasons for this is the need for modern equipment?

Secretary Wilson. Yes. Senator Capehart. Missiles?

Secretary Wilson. That is right.

Senator CAPEHART. More modern aircraft, more modern missiles? Secretary Wilson. Yes; a change in emphasis; also the fact that there are some areas in which we have to continue substantial support, Korea, for instance, where we have an armistice but we do not have any final settlement; where we have substantial armies facing each other across an armistice line. Also, we need some new money for

some new purposes, which include the improvement in our NATO defenses.

The unexpended funds are due to the fact that you have to place these orders quite a ways ahead, especially with relation to the foreign shipments. It has been about \$8.5 billion back in 1953 and 1954, but it is only \$5 billion now.

That is the reason why we got along for 2 years, 1955 and 1956, with very low appropriations, new appropriations, because we are working that balance down to where we don't have any more credit in the bank, so to speak, than we think we need to have to operate the program.

#### INCREASED MILITARY COSTS

Senator CAPEHART. Well, is it not a fact that the cost of military today in comparison to even 5 years ago, and 10, 15, or 20, 25 and 50 years ago, is getting so much greater through virtue of the fact that missiles cost so much more than common guns, and the present type airplane costs so much more than the old type, that it is hardly comparable in costs? Is that not something we are going to have to face as a nation and as a Congress?

Secretary Wilson. That is so, though there was an offsetting factor: the cost of the initial buildup starting with nothing in 1949 or 1950; we have the same thing in our own military establishment. Part of the big cost was to build up the establishment from, say, less than a million and a half men to the three and a half we had while the Korean war was going on, and to the approximately 2.9 we have now.

From now on, the question is going to be how much it is going to

cost to keep that force modern and effective.

Senator CAPEHART. And is it not a fact that the cost of modern weapons is so much greater than the cost formerly was of military weapons, that one can hardly conceive of or hardly compare them?

There is just no way of comparing them.

For example, the cost of airplanes today, that is, the kind of airplanes we are required to have, the jet planes and big bombers, and the electronics that must go into these planes, in comparison to—and atomic weapons—there is just no comparison, is there, between those and the cost of making common guns and common artillery and common tanks as we knew them years ago?

Secretary Wilson. It is a difficult comparison. You can still do

it on the basis of firepower and costs. I mean, you can get some

figures together to compare it, but it is pretty difficult.

Senator CAPEHART. I guess it is no secret, is it, as to what a B-52 bomber costs?

Secretary Wilson. I do not think so. It is around \$8 million apiece right now.

Senator CAPEHART. Eight million dollars. Now, 25 years ago, in World War I, you could have bought a lot

of guns and a lot of artillery for \$8 million, could you not?

My point is that, aren't we going to have to face the fact that the kind of defense we must have in the future and the kind of equipment we must have is going to be many, many, many times more costly than defense was in the past? Is that not one of the answers to those who talk about cutting the defense budget, possibly, or cutting the appropriations?

Secretary Wilson. That is correct.

Just to help make your point in the extreme, in the thirties, before World War II, the total military budget of the United States was of the order of \$600 million. And now some people seem to be greatly worried that an expenditure of \$36 billion is not sufficient to keep the country strong and safe.

There is no question about it, the \$600 million was too low, and it

risked the security of the country.

Some people, students of history, will say if we had had proper military strength before World War I and World War II, there might not have been those wars.

I sometimes feel a little apologetic as Secretary of Defense for ask-

ing the country for so much money, but I think we need it.

Senator CAPEHART. Well, had you tried to spend \$36 billion—did vou say 1932 was \$600 million?

Secretary Wilson. No; in the thirties. Senator CAPEHART. \$600 million?

Secretary Wilson. Of that order. Senator Capeharr. Yes. I say it would have been impossible to spend \$36 billion at that time on the kind of equipment we knew about or the kind of equipment that was designed. You would have had millions and millions of guns.

Secretary Wilson. We did not know how to spend it. We did not know about the weapons then, in the first place, and our forces were

pitifully low, anyhow.

Senator CAPEHART. That is right. They were too low. But the thought I am trying to make, or the point I am trying to make, is that with the demand for long-range bombers and jet bombers and missiles, and the last word in radar and electronics, versus Springfield rifles and carbine guns and the old-type tanks, and the kind of airplanes that we were building a few years ago, you just cannot help

but get this terrific cost.

Secretary Wilson. We also have the very realistic problem of phasing out some of the older things, and doing it in logical sequence, of getting some of it done, because we cannot keep making all the new things and keeping all the old ones too. And that is a problem, though, because people get used to the type of activity they are in, suppliers get vested interests in the business, and we have a lot of trouble to keep reappraising the value with relation to the costs of the different military things that are available.

Senator CAPEHART. I presume that this \$3 billion calls for furnishing these countries with the latest and the last word, as far as possible, in missiles and airplanes, and so forth. Unless you do give them the last word, there is not much use in giving them anything; is

Secretary Wilson. Well, it is not quite that.

Senator CAPEHART. Well, I mean unless you give them at least modern weapons.

Secretary Wilson. That is right.

But there is still involved in it spare parts to maintain good weapons that they now have, as well as new weapons. Also, we have what we call balanced international forces instead of balanced national forces.

In other words, we are not proposing to give every country the same proportion, but try to build them up while the proportion of air force and navy and land army that we think is right in relation to

In many cases, it is much easier for them to supply the ground troops, the soldiers, it is the thing they understand from the past, they have the manpower to do it. They do not have the industrial development to back up more technical things, so we tend to supply more of that part of it in our forces.

But we look on it on a global basis. We try to set them up soundly within what they can do, and make the greatest contribution to our

mutual defense.

## ONE TOTAL DEFENSE BUDGET

Senator Capehart. Well, if this budget was one budget, getting back to that a moment, rather than—you said 4; I think of it as 2, because I think of Air and Navy and Army as 1, so I think there are 2 budgets, the foreign military budget and the domestic, and you think there are 4—but getting back to that, if it were all 1, would you not-perhaps you would have to broaden the law, I do not know your authority—but would you not be able to use a lot of the equipment we have in the United States, perhaps, from time to time, in certain of those countries and loan it to them or lease-lend it to them, or possibly have a better situation, overall situation, than we have at the moment with these either 2 or 4, using your term of 4 budgets? Or is there any merit in that idea?

Secretary Wilson. Perhaps the idea should have some study. am not conscious of any great need for change, but that does not necessarily mean the need might not be there.

Senator Capehart. Do you have the authority now to lease-loan to

other countries X amount of equipment from time to time?

Secretary Wilson. We do, with the specific approval of the President.

Senator Capehart. You have that authority now?

Secretary Wilson. That is right, on a lease-loan authority. The Congress gives us that authority.

Senator Capehart. To give it on a lease-loan basis?

Secretary Wilson. That is right. Senator Capehart. You do not think there is any immediate need for broader authority?

Secretary Wilson. I would be pleased to make a study and report

to the committee, if you would like me to.

Senator CAPEHART. What I am thinking of, and many other people are thinking in the same terms, is that there can only be one reason for passing this bill, there can only be one reason for us to assist other

nations, and that is in order to help ourselves, America.

Of course, by helping them we likewise help ourselves. true, then a lot of people do not see the necessity for 2 budgets or 2 appropriations or 2 authorizations. They would sort of like to lodge the defense in the military, in our military, and say to them, "Here are \$36 billion," or \$38 billion or \$40 billion, or whatever it should be. "Now, you look for the same authority that Congress has over all appropriations, you take this money and spend it and do it in the best

way you think would defend the United States in case of war," that being the purpose of the military.

I think it is too late to do anything about it at the moment. I am not saying I am positive it ought to be done, but I know there are a

lot of people thinking in those terms.

Secretary Wilson. You know we actually handle public works separate from the rest of our military budget. That is reviewed by a separate subgroup of the Appropriations Committee, and they have separate hearings on public works.

Senator CAPEHART. You are talking about things like roads?

Secretary Wilson. In our own country.

Senator CAPEHART. You are talking about roads?

Secretary Wilson. No, I am talking about bases. Any construction program is handled as a separate budget in the Department of Defense. Senator CAPEHART. Yes, but it is all under your direct, 100 percent supervision.

Secretary Wilson. Well, it is not much different from this program, as far as I can tell. It is handled in a different way, but we finally get

the money for a purpose——

Senator Capehart. This money is appropriated, of course, to the President or to the Secretary, or to the ICA, or the Department of State. Are you saying, then, that they have very little, if anything, to say about it? If that is true, then—

Senator FULBRIGHT (presiding). Would the Senator yield his ques-

tioning for a moment?

Would the Senator like for us to come back this afternoon? I wonder whether he was planning to come back this afternoon.

Senator CAPEHART. I am just about finished.

Senator Fulbright. I do not want to cut you off.
Senator Capehart. I am about finished, because we are talking about something that possibly needs a lot of study and thought. I am vitally

interested in it, as I think the people of the Nation are.

Primarily, I think the people are interested in it because I think they would like to get away from this yearly controversy or yearly argument they have every year over the so-called foreign aid and military aid, and get it into one hand and one department, and handle it all at one time.

Secretary Wilson. Senator, if it would get rid of the controversy and argument, I would be very pleased to recommend a change that

would accomplish that.

Senator CAPEHART. I think it would do that. I think it would very

definitely do that, Mr. Secretary, very definitely do that.

I think the people are perfectly willing to see us appropriate and authorize whatever money we and the military think is necessary to defend this country.

Secretary Wilson. Senator, if we put it all in one, then the people

would want to know how much we have buried in there.

Senator Capehart. Well, they want to know that anyway, Mr. Sec-

retary.

Secretary Wilson. When it comes to discussing where you have got the bones buried, that is the toughest one of all, and I would just as leave have it out here.

Senator CAPEHART. They want to know it anyway. They want to

know now what you have got buried.

I think that is all, Mr. Chairman.

Senator Fulbright. May I ask the Senator from Minnesota, does he wish for us to go on now, or would you like to try—

Senator HUMPHREY. I think we ought to ask the Secretary.

Senator Fulbright. How long could you go on, or would you rather come back this afternoon or some other time?

Secretary Wilson. I am very embarrassed about trying to come back

this afternoon.

Senator Humphrey. Let's proceed.

Secretary Wilson. I happen to have a rather unusual luncheon date at 12:30 with a group of cartoonists who have been assisting the Treasury in their war-bond activities.

Senator HUMPHREY. Let's go, and come back some other time.

Secretary Wilson. I have some very capable people here, and I do not think the admiral is involved in the things I am this afternoon. Senator Humphrey. I will ask the Secretary just one question, and

if I could talk with the admiral for a moment.

Secretary Wilson. If you want to take another 5 or 10 minutes, I do not mind being a little late once in a while.

## REAPPRAISAL OF MILITARY PROGRAM

Senator Humphrey. Mr. Secretary, I think you ought to make your appointment; I shall not keep you long. I merely wanted to ask a question on what I heard or what we were told about a year ago about the reappraisal which was being made of the global, international security plan at the time of our 1956 program, when the authorization was rather limited and the appropirations, also; we were trying more or less to continue maintenance and forces in being.

It was said then that there was a program under way in the Department of Defense since the summer of 1954, for a complete and total

reappraisal of our international security plan.

Now, what has been the result of that reappraisal?

Secretary Wilson. I think I could sum it up by saying that there is no current evidence that we could put our fingers on that would indicate a substantial change as being one that we could safely make.

There is a great deal of discussion about the changed position the Russians seem to be taking, various other things keep happening, but I think, just to sum it up in a few words, there is no radical change in the program indicated by our appraisal of the world situation.

The Admiral might add to that a little bit.

Admiral Radford. I think Senator Humphrey is referring to Mr. Hensel's testimony of a year ago.

Senator Humphrey. That is correct.

Admiral Radford. What he was indicating was that he felt that some of the military aid programs had not been coordinated in an overall defense plan.

As we have moved into the various areas, we have carefully considered the military programs on a global basis, I think I can say that the reappraisal and the study that Mr. Hensel referred to has been completed.

Senator Humphrey. And does this bill represent the judgment of the Department of Defense insofar as military assistance is concerned?

Admiral Radford. That is correct. Senator Humphrey. On the basis of that reappraisal? Admiral Radford. On that basis; yes, sir.

#### COMPARISON OF YEARLY PROGRAMS

Senator HUMPHREY. Is it true that expenditures under this authorization, while the authorization is substantially larger than it was a year ago, the rate of expenditures will be about the same as a year ago? Is that the contemplated program?

Admiral Radford. I think it will be more. Senator Humphrey. How much more?

Admiral Radford. I will have to ask Mr. Gray; or Mr. McGuire. Secretary Wilson. It is two or three hundred million dollars, perhaps of the order of 10 percent.

Senator Humphrey. Yes.

Am I correctly informed when I say that the program, with the exception of the \$530 million for special weapons or new weapons, will be pretty much the same as it was in fiscal year 1956?

Secretary Wilson. We will have some more spare parts.

Senator Humphrey. Yes.

Secretary Wilson. But it will be substantially the same.

Senator Humphrey. So the really new part of this program is the \$530 million fund you are asking for special weapons?

Secretary Wilson. That is the biggest single change.

Senator HUMPHREY. Where are those special weapons essentially to be used? I am not asking country by country, but region.

Admiral Radford. We are studying that now, Senator. We have

not made a final determination.

Senator Humphrey. How did you make—if you have not made a final determination as to where the weapons will be ultimately used, Admiral, how did you make a final determination as to the sum of money that you wanted authorized?

Admiral Radford. We have actually pretty firm ideas as to where

they would go, but I could not discuss it here.

Senator HUMPHREY. I understand. That is what I said earlier. I realize that, country by country, you may not want to disclose that information. I was wondering whether or not this was primarily directed toward the NATO area, SEATO.

Admiral Radford. The NATO area would undoubtedly receive a

large part of that.

Senator Humphrey. But as a summary statement on this one part of the questioning, it is true then that the military assistance authorization for this year, exclusive of the special weapons feature, would essentially do what was programed in 1956?

Admiral Radford. It contains a good deal more of the maintenance

features than 1956.

Senator HUMPHREY. But I meant as far as new stockpiles or new materiel is concerned, it is to maintain the established forces at that level?

Admiral Radford. That is correct.

Senator Humphrey. I realize, Mr. Secretary, you have to go because of your previous commitment, and I do not want to detain you.

Senator Fulbright. Mr. Secretary, before you leave, would you mind if the Senator from Montana asked you 1 or 2 questions, and perhaps we would not have to bother you again.

Secretary Wilson. I would greatly appreciate that. Senator Fulbright. And if the Senator does not mind, we will

come back to Admiral Radford.

Senator Mansfield. Mr. Chairman, I would, in deference to the Secretary, forego asking questions at this time, and ask him whether he could come before the committee again in the morning.

Senator Fulbright. I do not know. Perhaps that could be explored.

I do not know what the chairman's plans are.

Secretary Wilson. You might ask me 1 or 2 that are heaviest on your mind right now.

## DECEMBER COMMENTS ON MILITARY PROGRAM

Senator Mansfield. Well, Mr. Secretary, did you on December 19 inform the congressional leaders that you would request \$2 billion more for the military aid program this coming fiscal year?

Secretary Wilson. I don't think I stated it that way, but I stated

what the amount was going to be.

Senator Mansfield. How did you state it, if you did not state it in

terms of the sum of \$2 billion?

Secretary Wilson. I talked about the \$3 billion, but I did not make any comparison with what the new money had been last year, so that when you asked me about the 2 billion, I did not talk about any two.

You can try to explain things to people various ways. You can tell them what the thing is, or you can tell them what it is with relation to Now, that part of it did not seem to be of great interest at the time, or was not brought up, and we simply said that we were thinking in terms of \$3 billion; and that is where it stayed, a few million came off of it, but substantially \$3 billion.

So I do not know just what the point is.

Senator Mansfield. Well, the point I am getting at is this: It appears to me that this program may be in for some tough sledding, and when the leaders were called to Washington last December, they were informed at that time, at least they can recollect, that they would be asked for an aid program of approximately the same as last year for this year, except for an additional \$100 million in economic assistance.

Secretary Wilson. No; that is not what happened, but apparently it went over the heads of some people who were there, and they just did

not get the full impact of it.

Senator Mansfield. Well, it is my impression that none of the Members of the Congress who had been called to Washington remembered being told that it would be an increase in the military assistance aspect of the program; and I think that had they been told then, that some of the roadblocks might have been removed in the meantime.

Secretary Wilson. You see, it isn't an increase in the program to the degree that it looks like. As I said awhile ago, to understand what is going on, you have to think of the program in terms of three different sets of figures: The new authority you are asking for; how much more new credit in the bank do you want? That is what we are asking for in the \$3 billion here.

Then the next question is: What is the program, how fast do you expect to make your obligations and your contracts? the program?

And the third one is the drain on the Treasury; how much cash do you pay out? There are three separate groups of figures because of

lead time.

And, of course, it is against the law to make any contracts until you

have the credit in the bank, quite properly.

As long as we have so many of these programs, we add them all up, and we have to ask for that total, in general. In the past, the programs were so indefinite that a great deal of money was appropriated, more than we could properly spend within the time factor.

That is why we were able to go along for 2 years with only about a

billion dollars of new funds, and spend 21/2 a year.

That is the explanation of it.

Senator Mansfield. Well, I understand the explanation, Mr. Secretary. It has to do with the authorization, the credit, that you referred

The only thing is that the impression did not seem to take hold, when these people came to Washington.

#### CARRYOVERS

But now you mention these carryovers, last year we were told by the Defense Department that there would be a carryover of \$100 million into the present fiscal year. An amendment was passed out of this

committee allowing a carryover of \$200 million.

When both Foreign Relations Committees and the two Appropriations Committees having to do with foreign aid got through, they found that the carryover was at least \$1.3 billion. And I am wondering if we are going to run up against that kind of a situation again this year.

Secretary Wilson. My experts say no.

Senator Mansfield. Mr. McGuire might answer that, because I think he is on notice, and I think the committee would like to have that information, because there has been some pretty shoddy bookkeeping

somewhere when there is that great a discrepancy in the figures.

Secretary Wilson. Well, that is the reason I frankly said that I am trying to get the program better organized. It was not so very clear when the money was obligated, because in many cases the orders were placed on the services, and then they had to place them on contractors that produced the stuff, and had background. And we were having some argument about when the money was committed and when it was not, and when it was only committed in somebody's mind and was being kept for Korea or some other thing.

It is a rather complicated business, but I assure you we are going to get it better organized. Mr. Gray and Mr. McGuire and all their assistants are really working at it. We are going to set it up as a business, and then we are going to try to carry it out effectively and efficiently

and promptly.

Senator MANSFIELD. Well, that is good.

Now, Mr. Secretary, you have stated on two occasions this morning that you have no authority now to move moneys from one service to another; is that correct?

Secretary Wilson. That is correct.

Senator Mansfield. What about the \$40 million which the Congress

unanimously restored to the Marine Corps last year?

Secretary Wilson. We had no authority to move it without authority from the Congress. We made the request, and they did not like it very well.

Senator Mansfield. But then you had contemplated moving those funds to your office, to the Navy Department, and to other parts of the

Defense Establishment.

Secretary Wilson. But we had to ask the Congress for permission to do it, which is just the point, that we have no right to move any moneys appropriated for one purpose and use it for another purpose, especially between the services, and we cannot move personnel money into equipment, and we can't move maintenance money. We cannot take any pay and maintenance funds that are saved and spend it for airplanes or tanks.

We have to spend the money substantially the way it is authorized. We do have some flexibility. For instance, in our airplane equipment account, we can buy more of one plane and less of another without taking it up with the Congress, although we do keep you informed

of what is going on.

Senator Mansfield. Well, you did in that instance, Mr. Secretary, because when your request came up, it indicated specifically just what you intended to do with the moneys left from the Marine Corps fund.

Secretary Wilson. That is right.

#### AIR STRENGTH

Senator Mansfield. Now, one more question: Did I understand you to say that this country is ahead of the Soviet in the field of planes? Secretary Wilson. That is our best appraisal of the total strength

Secretary Wilson. That is our best appraisal of the total strength of our airpower at the present time. You perhaps can add up some numbers and say on account of the numbers here or there—but one plane is not the equivalent of another, so it is a question of overall strength.

I think the testimony of practically everyone is that right now we are substantially ahead of them, not a great amount, perhaps, but

sufficient.

Senator Mansfield. Would that be true in the case of the Bisons, the B-37, compared with the B-52?

Secretary Wilson. I do not think this is a proper place to discuss

that.

Senator Mansfield. All right.

That is all, Mr. Chairman. The questions I was raising, I might say for the record, are taken from the public prints.

Senator Humphrey. May I just ask this one question, Mr. Chairman, before the Secretary leaves, just a point of information.

#### TIMING OF CHANGED SOVIET TACTICS

There has been a good deal of discussion, Mr. Secretary, about the change of Soviet tactics, and in every witness' testimony thus far, there has been emphasis upon that recent date the Soviet has changed its tactics, which I gather you have emphasized today, as has the admiral.

Now, I would gather that the Department of Defense works in close collaboration with our Central Intelligence Agency, and evaluates its defense requests or its armament requests here related to information that is probably received from the CIA and other informational services we may have.

When do you feel that the Soviet change of tactics really made itself evident, or when did you have evidence that there was a change in Soviet maneuvering and tactical or political and diplomatic tactics?

Secretary Wilson. There has undoubtedly been something going on ever since Stalin died. The sudden removal of Malenkov and more recently the change toward Stalin all point to some rather important things are going on.

We sometimes think dictators can do almost anything, but probably that is not so; they have to be responsive to mass psychology,

and what is going on in their country.

It is clear from the trips that some of their important people are making around the world that they are acting more like international salesmen than as conventional diplomats.

So, something is going on, without question.

Senator Humphrey. My point was, Mr. Secretary, as to when the defense services of our country—and I would imagine that the State Department or the overall National Security Council would be involved in this evaluation—when did we come to a recognition that there was a rather dramatic shift or at least a rather spectacular shift in Soviet tactics and strategy.

I noticed there is a good deal of comment about it this year. I perhaps should be more affirmative in my approach to you. It has been my view that this shift has been taking place for almost 3 years, rather than 1 year, and I have noted that the emphasis seems to be upon recent months. This Stalin-purging business is only a symptom

of what has been going on.

I have asked this question of some of the predecessors, and particularly in the State Department, I remember asking Gen. Bedell Smith about this at a time long before the collapse in Indochina.

I have been of the opinion that this shift started to take place in about the latter part of 1952 and early 1953, and the reason I mention this is that it just seems now that we are beginning to talk about the shift, but I have been unable to ascertain any difference or any change whatsoever in the mutual security program which comes before the Congress.

We got to talking about the shift, but where is the evidence as to whether or not we are making any adjustments, not merely to catch up and to countercheck, but to get ahead or to outmaneuver out in

the front areas?

Secretary Wilson. It is apparent to me that some change has been going on since Stalin died, particularly, and since the armistice in Korne

But to appraise that trend is difficult, to begin with. It is like some of these big storms, you know. We identify a center and the fact that there is one coming, but we don't know exactly where it is going to go.

The point we have been making here recently is that these changes seem to be in the political and economic area more than they are in the military area. There is no evidence we have as yet that would

indicate they have eased up on the building of advanced military

Senator Humphrey. There is evidence to the contrary, is there not? Secretary Wilson. Submarines, airplanes, missiles. So we are saying, let's not make a quick move here ourselves and cut down our military establishment until we see what the impingement on the

world is going to be of their changed policies.

There is a rumor now that they are going to make a dramatic announcement in the near future of cutting down their ground forces, the number of people in uniform. Well, to some degree that is no different than our so-called New Look, you know; they are coming to it about 3 years later.

But independent of that, we are simply saying that let's take it a little slow here now, in the evolution of what we have recently found to be sound policies, and let's not make any radical changes into a new ground like, say, cutting our military aid in two, or some foolish

thing like that, until we see what is really going to happen in the world. Senator Humphrey. Mr. Secretary, I feel like Senator Mansfield, that these are points that really mean a great deal to us. is not a matter of argument; this is a matter of discussion, because

we all have the same objectives here. Later on, if it is possible, it would be good if you could come back.

I do not want to detain you any longer at this time.

Secretary Wilson. Thank you.

Senator Humphrey. I would like to ask the Admiral a question or two.

Senator Fulbright. Thank you very much, Mr. Secretary. You probably will be available for one of our later meetings, and I would not want to undertake to make any agreement on that now. That will be up to the chairman.

Secretary Wilson. I would like to work it out with my office.

Senator Fulbright. Surely.

Secretary Wilson. I am perfectly willing to come back and try to help clarify any of the problems our country faces in this area. Senator Fulbright. Thank you.

Are you free to stay a while, Admiral?

Admiral Radford. Yes, sir.

Senator Fulbright. Or would you rather come back? It is getting

Admiral Radford. I think I would rather come back, if I could. Senator Fulbright. How about you, Senator Humphrey? I do not want to cut you off.

Senator Humphrey. It is agreeable to me.

May I say, the reason I feel we must pursue this is that this is the area in this bill which is highly controversial, and I think a case can be made for much of it.

I have some questions I want to ask in relation to the applicability of military assistance in certain areas. I want my position clear, I happen to believe very strongly in the military program. I recognize it is important. I think the factor we have to keep in mind is whether or not we are utilizing it in the areas where it ought to be utilized.

It is just a point of inquiry to get information from qualified people.

Admiral Radford. Yes, sir.

Senator HUMPHREY. You would prefer to come back; is that right,

Admiral Radford. Yes, sir; I would.

Senator Fulbright. Would you prefer to come back this afternoon,

Admiral Radford. I could come back this afternoon.

Senator Fulbright. At 2:30 or 3?

Admiral Radford. I would prefer to come back about 2, if I could. Senator Fulbright. About 2?

Admiral Radford. Yes, sir.

Senator HUMPHREY. It would be excellent with me.

Senator Fulbright. That would be fine. I do not think it will be very long.

Admiral Radford. I have an appointment at the White House at

Senator Fulbright. I would think that is long enough.

Is that agreeable with you?

Senator Humphrey. Yes. Senator Fulbright. I assume it is all right with the chairman, and we will meet here at 2 o'clock.

(Whereupon, at 12:45 p.m., the committee recessed, to reconvene at 2 p. m., of the same day.)

## AFTERNOON SESSION

Senator Mansfield. The committee will come to order.

Admiral, I understand that you have to leave by 3 o'clock.

Admiral RADFORD. I have been able to change the time to 3:30, approximately, Senator.

# STATEMENT OF ADM. ARTHUR W. RADFORD, USN, CHAIRMAN, THE JOINT CHIEFS OF STAFF—Resumed

Senator Mansfield. I see. I think that will give us ample time.

I will start off by asking a few questions, if I may.

Admiral, in your statement this morning you stated that-

I attribute this situation to a twofold influence—first, the success of the latest Communist tactics, and, second, a less dynamic approach by the United States in the same areas.

# DYNAMIC PROGRAM AND FLEXIBILITY

What do you mean by a less dynamic approach by the United States in these same areas which you visited in your trip around the world?

Admiral Radrord. I mean that in certain cases, Senator, for a combination of reasons, our military aid programs have not been as well executed as they might have been, and that we need to do better to prosecute the programs with more energy and more efficient administration, and we also need a certain degree of flexibility which we do not now have in order to do a better job.

Senator Mansfield. Is it your belief, Admiral, that the proposal

before the committee will give you a more flexible approach and that you will be able to improve the military aid aspect of the program?

Admiral Radrord. I believe it will help us a great deal; yes, sir.

Senator Mansfield. On page 2, Admiral, of your remarks you make another statement which I am sure the committee agrees with:

We should not now be lulled into complacency.

I certainly hope that this warning is taken to mind by the American people, and that we will not be taken in by the difficulties which seem to have multiplied in recent years.

On the next page you have some statements, too.

You state, for example:

### NATO PROBLEMS

NATO has some very serious problems of a basic nature.

Could you tell the committee what in your opinion those serious

problems of a basic nature in NATO are?

Admiral Radford. Well, Senator, the problems of holding together a large alliance like that are many and varied. The financial burden of the military forces that they have to maintain to keep up their strength are so great that there is a tendency on the part of some nations to reduce those expenditures because in their own countries there may be a feeling that the danger has lessened.

The complication for us is that the change in the Soviet approach has tended to play down the danger of the Communist menace, and

some people believe it.

I would say the greatest problem is to convince all of the members of NATO that there is a real need, a continuing need, for sufficient military strength.

Senator Mansfield. Would you say, Admiral, that one of the results of the Summit meeting at Geneva last July was the creation of

the feeling which you just described?

Admiral Radford. I think it is unfortunate that in some parts of the world that was taken to be the result of Geneva.

#### NEED FOR UNITED STATES LEADERSHIP

Senator Mansfield. I notice in that same paragraph that you state: It is my conviction that we must by our example provide them with strong leadership.

In your opinion is this country, in reducing its Armed Forces, providing NATO with the kind of leadership which you indicate it must have?

Admiral Radford. I am a little bit mixed up on that question.

Senator Mansfield. Let me rephrase it. You state that we must by our example—the Armed Forces reduction which this country has put into effect over the past several years—do you consider that an example for the reductions which during that period have likewise taken place among the NATO countries?

Admiral Radford. We laid out a program, a level-off program, after the armistice in Korea, Senator Mansfield, and the reductions in our Armed Forces were largely due to the fact that the fighting in Korea had stopped. As a result, we no longer needed the long pipeline of replacement personnel, and with our ability to redeploy some of our troops back to the United States, we made further economies.

Actually our leveled-off program is a very much larger program than we had before Korea, and amounts to very strong military forces.

I don't believe that there is anywhere in the world today a feeling

that we are reducing forces.

Senator Mansfield. Well, Admiral, all you have to do is go to the record. I don't disagree with your statement about the leveling off, but as I recall the figures of this year, I believe we are reducing our Army by something in excess of 300,000 men, so that on June 30, 1956, if my information is correct, we will have a standing Army of 1,025,-000; is that correct?

Admiral Radford. No, sir; I do not think the figure is exactly correct. There is no reduction in planned end strength for fiscal 1957;

on the contrary, the Army figures will go up slightly.

I don't have them with me, but I believe they are about 1,080,000. (The exact figure, submitted later by the Department of Defense, is 1,045,300.)

Senator Mansfield. That is for 1957?

Admiral Radford. Yes, sir.

Senator Mansfield. I thought you used the year 1957 to say that in that year they would go up to about 1,080,000.

Admiral Radford. Yes, sir.

Senator Mansfield. Well, all I had in mind was that we have reduced our defense expenditures, we have reduced our Army, Navy, and Marine Corps, and it appears that the nations in the NATO organization have followed suit in reducing their expenditures, in reducing their armed forces, and in some instances considering very seriously the reduction of their period of conscription from 18 to 15 and even to 12 months.

### CYPRUS, NORTH AFRICA, AND ICELAND

But getting back to this particular item again, in this matter of very serious problems, would you say that three of the most serious problems of NATO today are the situations in Cyprus, the situation in north Africa, and the recent act of Icelandic Parliament asking the Americans to withdraw from that island?

Admiral Radford. I would.

Senator Mansfield. And they are serious and they are interrelated?

Admiral Radford. That is correct.

Senator Mansfield. And they would indicate that NATO at the present time is in a very precarious position because of these weakening influences?

Admiral Radford. Well, I would say that it indicates that action

must be taken to settle problems like that.

Senator Mansfield. Exactly. You anticipated my next question, which was that this is all the more reason why we must undertake strong action at this time to revive and strengthen NATO.

Admiral Radford. Yes, sir.

Senator Mansfield. Otherwise the results could be disastrous.

## HOSTILITIES IN LAOS

On page 4, the last paragraph, I quote:

In the SEATO area of southeast Asia the situation is troubled. There have been intermittent hostilities in Laos.

What do you mean by the term "intermittent hostilities in Laos,"

 ${f Admiral}\, ?$ 

Admiral Radford. In two of the northern provinces that I am sure you are familiar with, Phong Saly, and Sam Nua, the Pathaet Lao have organized military forces and have attempted to maintain the administration of those provinces. We have not had full-scale fighting between regular forces of the Laotian Government, but there have been intermittent guerrilla actions taking place in that part of Laos.

Senator Mansfield. Admiral, to the best of your knowledge has there been an increase in the forces of the Pathaet Lao since the Geneva Conference of 1954, which supposedly settled the Indochina question?

Admiral Radford. I don't know, Senator, offhand.

I don't believe there has been any considerable increase in numbers. I think they probably are a little bit better equipped than they were.

They have been getting asistance from across the border.

Senator Mansfield. Across the Chinese border or the Vietminh border?

Admiral Radford. Largely across the Vietminh border.

Senator Mansfield. Do you have any knowledge at your disposal to the effect that among the dissenting forces in these two Laotian provinces are Chinese volunteers so-called?

Admiral Radford. I have heard that but I have no reason to believe that they have come over in any large numbers. I would not be surprised if there are some there.

#### THE BAGHDAD PACT

Senator Mansfield. Now Admiral, one last question. On page 4 you state, and again I quote:

I am convinced that we must continue to give our full support to the Baghdad Pact in order to dissolve any remaining doubts in the minds of the northern tier peoples.

Do you mean by "full support" that we should become a member of the Baghdad Pact or that we should continue in our present position

of giving moral and economic support?

Admiral Radford. From a purely military point of view, it would be advantageous for us to belong to the Baghdad Pact. I realize, however, that there are other considerations that probably make our present course of action advisable.

Senator Mansfield. Is it true, Admiral, that to all these four nations we are at the present time-furnishing military assistance—Iran,

Iraq, Pakistan, and Turkey?

Admiral RADFORD. That is right. Senator MANSFIELD. That is all.

Senator Smith. Mr. Chairman, could I ask Admiral Radford one question?

Senator Green. Senator Smith.

Senator Smith. I would like to ask the admiral a question.

Senator Green. Certainly.

## ISRAELI-ARAB ARMED FORCES

Senator Smith. Admiral, I am getting a great many inquiries about the situation in the Middle East, especially the Israeli-Arab situation and the balance of power there.

There are many people of my State who are very much concerned over that, feeling that the arms having gone to the Arabs, through

Egypt and so on, jeopardize the State of Israel.

I don't know whether you are prepared to comment on that in an open meeting or whether you would rather do it in executive session. I think a great many people would be relieved if you could give them a little picture of what that balance of forces is there, whether the Israelis really need more military supplies for their survival?

Admiral Radford. I think at the present time, Senator Smith, that the Israelis have better ground forces. Their training is better and their equipment probably all around is better. As to airpower, with the deliveries of some of the later-jet models, light bombers, and fighters, the Egyptians have the possibility of generating superior air forces.

It will take them some time to learn to use the new equipment they

have in the numbers that they have.

The Israelis, I believe, would have reason to be concerned at some future date when the Egyptians have assimilated this new equipment. As of today, however, I think the Israeli power is generally adequate to defend itself.

Senator Smith. You don't feel there is any reason if you want to protect the Israelis, to send them additional equipment at the present

Admiral Radford. I think they are getting some additional equip-They are getting some of the latest jet fighters, not in large numbers but it will improve their defensive capabilities.

As our Secretary of State has pointed out, the solution to the great

problems in that area cannot be found by generating an arms race.

In other words, if the Israeli Government were built up with numbers of jet bombers and fighters, then the Communists might deliver an additional number to the Egyptians, and you might have an even more precarious situation.

Also there is a limit, a physical limit, to the number of airfields that can possibly be constructed in Israel, because geographically it

is a very small country.

I feel as though the efforts of the United Nations must be continued to find a better solution to this problem of Israel versus the Arab countries. Just supplying arms to both sides would not give us the solution that we want.

It would be almost certain to generate active fighting in that part

of the world sooner or later.

Senator Smith. Probably the preponderance in population as well as in the land area there of the Arabs might in the long run be a very serious menace to the State of Israel.

I have been replying to my correspondence along that line. Admiral Raprord. Yes, sir.

Senator SMITH. And suggesting that what we are trying to do through the United Nations is the best assurance to Israel of continued

existence and protection.

Then of course our own attitude recognizing Israel as an important part of our policy, we are not letting them down or we are not turning We are not getting into an arms race now; is that our backs on them. a fair statement?

Admiral Radford. That is correct.

Senator Smith. That is all I have at the moment, Mr. Chairman. Senator Green. Senator Wiley?

Senator WILEY. I am very sorry I missed the testimony this morning, but I could not be at two places at once.

I had to be at the Judiciary Committee this morning.

I just want to ask a few questions, Admiral.

The overall situation in the world today I think might be characterized as one that is unsettled and in ferment.

Do you agree with that?

Admiral Radford. I believe I would say it is unsettled, and in certain parts of the world it is pretty much in a ferment.

#### MILITARY THREAT TODAY

Senator Wiley. And because man's ingenuity has shrunken this: globe of ours so that we in America are no longer physically isolated, it is necessary for us to evaluate the situation so that we do not have another Pearl Harbor come up on us? Is that right?

Admiral RADFORD. That is right; yes.

Senator WILEY. Is it true that, after Pearl Harbor, we had 2 years to pick up the pieces, and the Pacific Ocean was really a barrier, even in the days of Pearl Harbor?

Admiral Radford. Well, I do not know; we did not have 2 years after Pearl Harbor to pick up the pieces. We had to get busy.

Senator Wiley. Well, I mean we took those 2 years to get ourselves

The point I am making is that now, because the world has been shrunken, we won't have 2 hours unless we are ready; isn't that right?

Admiral Radford. After Pearl Harbor, Senator, out in the Pacific we had very small United States forces that had to hold the line while we were generating additional forces. The young men that were out there in the western Pacific during 1942 and early 1943 really had to fight.

Senator Wiley. Yes, but the point I am making is this: We did not think that in those days of Pearl Harbor there was going to be any

intercontinental missiles or any intercontinental bombers.

For instance, why are you building any Nike sites around Milwau-

kee, Wis.?

ADMIRAL RADFORD. I did not mean to infer that the situation today would be anything like that at the time of Pearl Harbor. We are in much greater danger. We are in danger of a direct assault on this country now.

Senator WILEY. I think that is the answer I was looking for because I think it is our obligation, and particularly the obligation of you Defense people, to alert the American people to the situation as it

I can remember Senators on the floor of the Senate saying there-

won't be any attack, we won't get into any war.

War will never come. That was before Pearl Harbor. I can also remember in February and March of that year the present Senator introduced a resolution in 1941 to find out what condition our Armed Forces were in in Hawaii and the Philippines.

That was ignored. And in my March remarks I said, "Will our fleet be caught"—this was in 1941—"as the Russian fleet was caught in the Russian-Japanese war."

No attention was paid to it and they were caught.

At the time of Pearl Harbor, Wisconsin was practically isolated. Now we are nearer to attack than New York City, aren't we, over the circle route, from Siberia?

Admiral Radford. Yes, sir.

Senator Wiley. Therefore, those changed facts necessitate our having our eyes open in recognizing that we have got to take those steps which we do not think and which, in fact, were not really necessary in 1941.

And among those is what you have suggested here. You have said that we have got to see to it that our allies don't go down. We have got to see to it that we in America are alert and have the tools here.

But we cannot fight the battle alone; is that right?

Admiral Radford. That is right, sir, and as I have tried to point out in my statement this morning, the military assistance program is a part of our overall military program, the forces that are generated and maintained under this military assistance program are essential to our own security.

Senator Wiley. I think that is a very good answer. In other words, it is the business of those in command, like yourself, and of us in the Congress, to apply the law of self-preservation. We must do whatever is necessary under the facts as they exist now to preserve

our defensive military strength.

That is why we are building up stockpiling material; is it not?

Admiral RADFORD. That is correct.

Senator WILEY. We do not have an adequate supply at the present time of many critical materials so we build stockpiles. Another reason is that we do not have the manpower, so that we find that in helping other nations to maintain their power we are able to protect our own limited resources. I think you put it very well when you said this morning:

besides the lack of such unlimited manpower resources that would be required,

the costs would be prohibitive even for this country.

In addition there is the psychological question of national pride and when we say that other nations can use their own manpower to resist communism, that is most important.

I think that is all, Mr. Chairman.

Senator Green. Thank you.

Senator Humphrey, do you have any questions you would like to ask the admiral?

Senator Humphrey. Yes, I have, Mr. Chairman.

#### MEANS TO STRENGTHEN NATO

Admiral Radford, you mentioned a moment ago in reply to a question by Senator Mansfield that you felt there ought to be stronger action to strengthen NATO. That was in reply to a question relating to the Cyprus situation and others.

Just what kind of action do you refer to there, Admiral?

Admiral RADFORD. I do not pretend to know how you can settle some of those difficulties, Senator.

I just know that they are serious. I am sure our Government will lend its good offices in cases of disputes between NATO partners, in an effort to solve the problems.

But I realize that it is not easy.

Senator Humphrey. But what you are referring to is that these are political decisions, political action that is needed here or diplomatic action?

Admiral Radford. That is correct.

Senator Humphrey. Are you of the opinion that the military assistance program to NATO is adequate to continue to build its defensive strength?

Admiral RADFORD. The defensive strength of NATO will be in-

creased continuously by our military aid program.

Senator HUMPHREY. Are we getting the kind of cooperation from NATO partners on the military aspects that equalize proportionately their contribution to ours as we continue to put funds and equipment into the NATO alliance?

Admiral Radford. We have bilateral agreements with each one of the countries that are receiving aid under the military assistance program. We take into consideration their capability in each particular case to support with their own funds these military forces, then we try to make up the difference.

In answer to your basic question, that is, are we sure that in each case we are doing as much as we can, I think we are, in general; cer-

tainly we are striving to see that that is the situation.

## RELATIONSHIP BETWEEN MILITARY STRENGTH AND POLITICAL PROBLEMS

Senator HUMPHREY. I notice that the visit of a certain part of our fleet in the Mediterranean to the island of Crete was canceled; is that correct?

Admiral Radford. All I know about it is what I saw in the paper—I believe it was yesterday.

Senator Humphrey. Is it a fact, Admiral?

Admiral Radford. I have not had time to verify it. I imagine it must be correct.

Senator Humphrey. Is that due to political problems?

Admiral Radford. I think it probably is, I inferred from the story that there is a possibility that there might be some difficulties ashore with some of our personnel because of feelings of some of the Greek population in regard to the Cyprus question.

population in regard to the Cyprus question.

Senator Humphrey. Is it a fair statement, Admiral, to say that the military strength of NATO as a defensive arm for collective security is pretty much measured by the political understanding and solidarity of the membership of the pact, in light of current weapons in hand

and forces in being!

Admiral Radford. Well, I would say that the strength of any alliance of that kind basically has to be in its political associations. I notice that in the NATO meetings of military men there is no disagreement as to the problems that the military face.

It is at the political level that there are some difficulties.

Senator HUMPHREY. And it is therefore at that level that great attention needs to be concentrated?

Admiral Radford. Yes, sir.

## ISRAELI MUTUAL SECURITY PACT

Senator Humphrey. One question in reference to a point raised by Senator Smith in relation to the Middle East.

We have had some discussion on this as you recall in executive session. Have you ever been consulted about the advisability or the desirability of a mutual security pact between our country and Israel?

Admiral Radford. I don't believe I have been personally. In any area like that we would consider the pros and cons of action of that kind.

Senator Humphrey. Yes. Has this been a matter of discussion amongst the policy planners with whom you have had association and contact?

Admiral Radford. I hate to speak for anybody but myself, Senator. I feel that there are pros and cons to such an arrangement that would have to be considered very carefully.

Senator Humphrey. Yes, as it would in any pact?

Admiral Radford. Yes, sir.

Senator Humphrey. I mean any pact in which you enter you would not only consider the military aspects but also the political aspects? Admiral Radford. Yes, sir.

Senator Humphrey. Whether or not there were more liabilities or assets from such an arrangement?

Admiral Radford. That is correct.

Senator HUMPHREY. Are you satisfied that what is taking place in the Middle East vis-a-vis our relationships with Israel and the Arab States is conducive to preserving a balance of power so that neither side gets a feeling that they can attack with success?

Admiral Radford. I think that at the present time there is no great unbalance of power. It may come about later. I think the actions that are being taken through the U. N. are most suitable for the situation and should be pursued with great vigor.

Senator Humphrey. Do you feel that the cease-fire arrangement is

a guaranty of peace in that area?

Admiral Radford. No, I do not think any cease-fire arrangement is a guaranty. I think some of the arrangements in the present cease-fire arrangement could be improved.

For example, if the lines were separated by a deneutralized zone such as we have in Korea, there would be less likelihood of sporadic actions. I think that the present cease-fire arrangement could be very much improved in other detail.

Senator Humphrey. Do you know whether or not there are any further plans, Admiral, for the sale or the shipment of arms under our mutual assistance agreements to the state of Saudi Arabia?

Admiral Radford. The arrangements with Saudi Arabia are on

a reimbursable basis. I do not know of any present requests.

Senator Humphrey. No present request that you know of? Admiral Radford. No, sir.

# NATURE OF PRESENT DANGERS

Senator Humphrey. Going to a general observation in your testimony, Admiral, I noted that you mentioned that you had recently

completed a trip around the world, and I recall the press reports relating to your trip.

You said:

The object of this trip was to familiarize yourself with current conditions.

Then you went on to point out you found a number of serious

In the year that has passed since I was last in those countries there has been a subtle but perceptible change in the atmosphere. In some cases doubt and confusion have replaced a firm resolve.

In light of that general observation, which is the considered judgment following your trip, do you feel that our situation presently is more dangerous than it has been, let us say, in the last 12 months or the preceding 12 months, the preceding year?

Admiral Radford. I don't think it is more dangerous in the sense that I am worried about an immediate overt aggression on the part

of the Communists.

I think it is dangerous in the long term because the Russian propaganda and Russian efforts along that line are probably clearer, and because I feel that we have to improve our own performance in the information field and in the diplomatic field; I feel that for the time being, our military strength—a good deal of which has been generated through the mutual security program that we are discussing today gives us time to improve that situation.

What I meant to infer was that we should not be complacent about

our position around the world.

We have a great deal of work to do.

Senator Humphrey. In light of the fact that this program calls for a very substantial authorization of approximately \$4,800—or \$4,900 million—do you justify this request, particularly in the military assistance field, on the basis that the world situation is sufficiently dangerous and unpredictable so as to merit a very heavy expenditure

for military assistance?

Admiral Radford. The military assistance part of this request, Senator Humphrey, is largely a maintenance program. It is the maintenance of programs that we have agreed were necessary and have agreed to carry out, we have agreed were necessary, with the exception of the part that was mentioned this morning for new weapons. So the amount this committee has been requestd to authorize would extend the same general level of assistance on through years beyond 1957.

Senator Humphrey. This morning, Admiral, you talked about changing in Soviet tactics, and also we discussed that a bit with the

Secretary, and I shall not go into that much more now.

## EFFECTS OF PAST MILITARY PROGRAMS

But you made a point that the military assistance program over these past years and the most recent year and the one we are projecting for the future has forced a change in the Communist tactics.

Was that your observation? Admiral Radford. Yes, sir.

Senator Humphrey. Now I think that you can justify that statement and I would be prone to concur with you in many parts, but the question that I have in mind is whether or not certain aspects or certain areas of military assistance were not much more vital in this matter or in this change of Communist tactics than others.

For example, wouldn't you say that NATO was a prime example of where collective defense and military assistance produced a change

in Soviet maneuver and tactics?

Admiral Radford. Undoubtedly.

Senator Humphrey. Would you say that our resistance in Korea had a decided impact upon the Soviet strategy as far as military aggression was concerned?

Admiral Radford. Undoubtedly.

Senator Humphrey. Could you name me any other areas where you think that our military assistance as such has held the Soviet to change their tactics?

Admiral Radford. I think in the Middle East also.

Senator Humphrey. In the Middle East?

Admiral RADFORD. Yes, sir.

Senator HUMPHREY. Is it possible that the Soviet in that instance reaped some benefit politically out of the Baghdad Pact by, for example, the movement into Afghanistan and the sale of arms to Egypt and thereby getting her foot in the North African area?

Admiral RADFORD. Well, I think that the question of whether or not

she has reaped any permanent advantages remains to be seen.

It may prove to be somewhat of a liability to them in the long run. Senator Humphrey. Would you say that temporarily because of the political repercussions among so many of the states in that region or the nations in that region, that the Soviet may have reaped a temporary advantage?

Admiral Radford. I think so.

Senator HUMPHREY. And therefore from that point on it depends on more or less what we and our allies do; is that correct?

Admiral RADFORD. That is correct; yes, sir.

Senator HUMPHREY. Now I said I wanted to ask you just a question or two on the nature of military assistance and I want you to know, Admiral, that my question is not directed against military assistance.

I recognize the critical importance of both a strong defense at home and adequate military assistance abroad, particularly with reliable allies, and in areas where we have political understanding and politi-

cal cooperation.

I preface my question by saying what I am concerned about in the military assistance area is that we may be giving assistance in some parts of the world where our political relationships are not sufficiently firm and understandable or acceptable, so that the military assistance may aggravate the situation rather than to placate it or strengthen it.

For example, I believe that military assistance to Turkey is highly desirable. I think she is a great ally. I also believe that economic aid even more than this bill provides is desirable. I am concerned

about the lack of proper attention to Turkish economic aid.

## AID TO PAKISTAN

But now let's get, for example, into the Middle East.

First of all, let's go over to the Far East. I have here with me a compilation of press reports from India from all the leading press

relating to our aid to Pakistan.

Is it possible that in the mutual security pact with Pakistan that the political ramifications of that pact, vis-a-vis Pakistan, India, and the United States, may actually jeopardize our whole position in that particular area of the world?

Admiral Radford. I suppose it is a possibility. The Indian press would seem to indicate that that is the prevailing opinion in that

country.

I think actually that is not the case at all. I believe our aid to Pakistan is fully justified. We have in Pakistan a very fine, loyal anti-Communist ally, and I think the true situation is not what the

Indian press makes it out to be.

Senator Humphrey. Accepting your statement as your considered judgment, isn't it the fact, however, that in any of these areas where we become involved either diplomatically or militarily, that it is not so much what we think to be the truth but what the countries in the area believe to be the fact, because we are dealing, as was said earlier today by Secetary Wilson, in a mutually lateral and bilateral relation-

We have to get some concurrence and some acceptance on the part

of the participating countries as well as their neighbors.

Isn't that a fact?

Admiral Radford. Yes, sir.

Senator Humphrey. Now I have been disturbed because the military assistance we give to some areas of the world may upset the balance of power in the region between the neighboring countries and thereby promote antagonism and tension in a localized area.

Is that not a possibility?

Admiral Radford. It is a possibility, but I do not know of any other case than the one that you have brought up where that is true. Senator Humphrey. What about Iraq?

Admiral Radford. Iraq? Senator Humphrey. Yes.

Admiral RADFORD. We do not have a very large aid program with Their associations are largely with Great Britain. But again, the arrangements with countries which we have are designed to strengthen the free world against the menace of communism; although we may be accused of other motives, we know that such accusations

Senator Humphrey. I agree with our motives in this, but motivation sometimes as we see it may be misunderstood by the others.

Admiral Radford. I think, Senator, if the others make a coldblooded appraisal of our programs and the strength of the various neighbors and take into account world public opinion, they will see little likelihood of a great threat to themselves.

Senator Humphrey. In the Middle East the shipment of any arms to any particular Arab state undoubtedly causes tension not only between Israel and that Arab state, but may very well cause tensions

between Arab state and Arab state.

Admiral Radford. That is correct.

Senator Humphrey. For example, there is a conflict of interest between Iraq and Egypt at the present time; is there not?

Admiral Radford. Yes, sir.

## NEED FOR POLITICAL DECISIONS

Senator Humphrey. And what I am getting at, Admiral—and by the way I am not drawing any conclusive judgment about it at all at this moment—what I am getting at is that again it appears to me that the political judgment involved in these matters is of a

highly sensitive and important nature.

I think you can justify military assistance as such to a country such as Pakistan or Iraq or Saudi Arabia, but you have to constantly keep in mind what are the political repercussions, because these areas, strange as it may seem, are sometimes much more concerned about what goes on in their bloc, so to speak, in their region, than they are in the great conflict between the free world and the totalitarian world.

I have a feeling, it is just my own personal feeling, and I think it is shared by others, that all too often when we think we are building a corridor of defense against the Communist power, that we may very well be building a disruptive force within the very region where we hope to get a solidarity of interests or a solidarity of spirits and materiel against the Communist power.

Admiral Radford. Yes; I am sure that the political considerations

that enter into these problems are carefully considered.

I think there is also the possibility that some of this unrest and difficulty that you mention is generated by Communist propaganda. Senator Humphrey. I am sure they would enjoy nothing better—

Admiral Radford. They do everything they can to stir up trouble. Senator Humphrey. Yes; but there are places in the world where even if Karl Marx had never lived or Lenin had never lived there would still be problems; for example, the rivalries between Pakistan and India. They are not related to communism. Rather, they dispute over Kashmir, over political matters that relate to those particular areas. Wouldn't you say that is true?

Admiral Radford. I think they probably antedate Karl Marx by a

good many years.

Senator Humphrey. I am sure they do.

### AFGHANISTAN

Are you concerned about the Soviet infiltration into Afghanistan, for example, in the Baghdad Pact area?

Admiral Radford. I am always concerned when they infiltrate any

country.

Senator Humphrey. Let me ask you do you think the infiltration

has been of sizable proportions?

Admiral Radford. I think that they are making a great effort to penetrate Afghanistan. As far as numbers of people are concerned, I do not think there are any large numbers in there now, but they have made agreements that would tend to tie them more closely with Afghanistan.

Senator Humphrey. One question further in that area, Admiral.

#### INDIAN ARMS PURCHASES

Have you heard as to whether or not the Indian Government has been thinking about purchasing arms in order to maintain some balance of military power vis-a-vis herself and Pakistan?

Admiral Radford. I have seen some comment to that effect; yes, sir. Senator Humphrey. Have you heard that she may be thinking about

purchasing them from the Soviet Union?

Admiral Radford. Yes, sir; I have seen that.

Senator Humphrey. Would that be looked upon with a certain amount of concern on our part?

Admiral Radford. I think so.

Senator Humphrey. Has this matter been discussed in high places in this Government?

Admiral Radford. I have not discussed it particularly with any-

body.

Senator Humphrey. Nor have you been asked as to your views about

Admiral Radford. No; but I do not think they would have to ask.

Anybody would know what my views were on it.

Senator Humphrey. The point I make on military assistance, Admiral, and as I repeat to you, is that it appears to me that in these troubled spots, and I mentioned those that I thought were most significant, the Pakistan-India area and Afghanistan, we should be especially concerned at the impact of our programs.

Don't misunderstand me. I think from our knowledge of what the Soviet is up to that these countries ought to be much more concerned about the Soviet. But from what reports I have read, and I would like to get your observation on it, the Afghans are more concerned about what is happening in Pakistan in terms of military buildup than they are with what is to their north.

Admiral Radford. I think that if you are referring to all the Afghan people I would question that. I think the great majority of the Afghan people have not taken an interest, the same interest—

Senator HUMPHREY. I am talking about their Government.

Admiral Radford. That their Government has.

They do have problems between them; the difficulties go back for hundreds of years in that part of the world. There are many actions and reactions that have taken place in the neighborhood of Afghanistan. Afghanistan is the gateway to India and all the conquerors came and went through that part of the world. The various tribal and family and other difficulties have left this heritage of problems in that part of the world which are so great that it will take much time and patience to settle them.

Senator Humphrey. Were you in that area at all on your trip,

Admiral?

Admiral Radford. Well, I was in Pakistan. I have been up to Per-

shawar and the Khyber Pass.

I have never been in Afghanistan but I have been up to the border. However, I have read a good deal about the background of this present trouble.

Senator Humphrey. Was there any great amount of political discussion or discussion about the political matters involved in our relationship to Pakistan and those other areas that we have alluded to?

Admiral RADFORD. The Pakistanis have been concerned with the

You see, the seminomadic tribes along the Pakistan-Afghanistan

border, move back and forth across that border.

The tribes can be influenced to cause trouble and sometimes they do.

Difficulties can come up on very short notice, and it does keep the

Government of Pakistan worried.

Senator HUMPHREY. Would you say that it is possible the other government is worried too about the growing strength of Pakistan?

Admiral Radford. Possibly, although if they were well acquainted with the situation, they might understand that Pakistan has enor-

mous local problems to take care of.

Senator HUMPHREY. You heard this morning I am sure, Admiral, Secretary Wilson say in reference to new Soviet strategy, tactics in the economic field in particular, in reply to one question I think by Senator Fulbright, that possibly later on there might be some dissatisfied customers.

Then it was later on enlarged or explained to mean that possibly

the Soviet would not be able to deliver.

First of all, do you know of any time that the Soviet has made a commitment on economic or military assistance that it has not delivered?

Admiral Radford. I don't know of any, offhand, no, sir, but I think what he meant was that if they get into this business in a large way, they may run into difficulties.

Senator HUMPHREY. Is that just a hope or is that based upon some

credence, some creditable facts?

Admiral Radford. I think in his case, although you would have to ask him to make sure, he was expressing a hope.

Senator Humphrey. What do you think they have capabilities of

delivering upon their commitments?

Admiral RADFORD. I think they do, but I am also of the opinion that the more they extend themselves, the more opportunities there will be for them to make mistakes and get in trouble, upon which I shall look with great gratification.

Senator HUMPHREY. I read from the press where they had made a commitment of \$100 million of Czech arms as a Soviet satellite state

to Egypt.

Do you recall that figure?

Admiral Radford. I think that was about the figure.

Senator HUMPHREY. And that they would be completed with their deliveries within the coming month.

Wouldn't you say that was rather rapid performance in light of

the fact that——

Admiral Radford. No; I don't think so.

At the time when we were delivering our aid from surpluses in the United States, which is what they are doing there, we probably delivered more than that in the same length of time. It is not particularly difficult for them to do what they did in the case of Egypt.

Senator Humphrey. But they did deliver?

Admiral RADFORD. Yes; I think they have. I am quite sure they have been meeting their delivery dates.

Senator Humphrey. The point that I was trying to make, Admiral, is that I think it is unwise for American policymakers or administrators to assume that the promises which the Soviet are now making are not attainable or will not be delivered upon.

Admiral RADFORD. Oh, I do too. I think it is very unwise.

Senator Humphrey. We ought to face up to the fact that they may very well be able to deliver, and even if it does pinch their people their people are used to being pinched.

Admiral Radford. And they do not have anything to say about it. Senator HUMPHREY. They don't have much to say about it, that is

right.

## THE WORLD SITUATION

In the main, how do you size up the present situation considering the problems of NATO and the Far East and the Middle East?

How do you size up the world situation?

Does it look rosy and happy to you or how do you feel about it?

Admiral Radford. No. I think, as I have said on many occasions, Senator, that we have no reason to be complacent. We have generated since 1950 very great military strength. I think it is that strength that has prevented an enlargement of the Korean war and an attack on the United States.

I think we can maintain that security. The military problem is a more or less straightforward one. We can make estimates and we can say with reasonable assurance that our national security in the military sense is taken care of.

It is in the political field and the diplomatic field that we have to

In other words, the new Russian approach—their capability to talk sweet and get people to believe them—poses new problems for us.

Senator Humphrey. In other words, we are at a better stage mili-

tarily than we are politically; is that what you would say?

Admiral Radford. I would say that our problems in the other fields are greater and more difficult than they are in the military field.

Senator Humphrey. That is all.

Thank you, Admiral.

Senator Aiken?

Senator AIKEN. I might ask the Admiral, if the United States promises to deliver on a million dollars worth of commodities or arms or any other equipment to a foreign country, can we deliver too?

Admiral Radford. We generally meet our commitments; yes, sir. Senator Aiken. Then we have at least two strong countries in the world?

Admiral Radford. Yes, sir.

Senator AIKEN. I have no questions.

Senator Humphrey. Senator Mansfield?

Senator Mansfield. Just a few short questions.

In this trip of yours around the world a few months ago, you spent some time in southeast Asia, did you not?

Admiral Radford. Yes, sir.

# GENEVA CONFERENCE WITH RED CHINA

Senator Mansfield. Did you find any feeling among the nations of that area, any feelings of apprehension concerning the Geneva Conference which had been going on between the American Ambassador to Czechoslovakia, Mr. Johnson, and the Red Chinese Ambassador to Poland, Wan Ping Nan—did you find any apprehension in southeast Asia about that particular Geneva Conference?

Admiral Radford. A great deal.

Senator Mansfield. That is the one which they have been looking to?

Is it fair to assume that these nations have been looking at this ambassadorial conference which has been in progress since August 1, 1955, with the idea in mind that maybe some agreement is going to be arrived at which may well affect their future?

Admiral Radford. That was their great concern.

Senator Mansfield. One more question, and this is purely from a

military point of view.

With the independence of Morocco and Tunisia, with supposedly interdependence with France, would you in your opinion think it advisable to consider seriously the possibility of those two countries and Spain becoming members of the North Atlantic Treaty Organization?

Admiral RADFORD. I think it should be considered; yes, sir.

Senator Mansfield. That is all.

Thank you, Mr. Chairman.

Senator Humphrey. Senator Wiley?

Senator Wiley. Admiral, these two young fellows have brought

another one to my mind to ask.

You may remember that when General Romulo went to the Bandung Conference, he himself stated that before he left he was fearful that the various nationalities of Africa and the Far East had been sold a bill of goods by the Communists, and he was afraid they were really congealing together to strengthen the Communist position.

I have heard him say in Milwaukee "I came back with a song in my heart." He said he saw those people representing those various coun-

tries get up and literally spit in the face of the Communists.

He heard them recite from our own Constitution and the Bill of Rights, and they recited the Ride of Paul Revere, so much so, he said, that the Communist China delegate had to ask for an adjournment to rearrange his speech.

Now I am getting to my question.

In your trip around the world, what did you find?

Did you find that the people were loving America, were looking to America with hope or with fear?

What was their attitude toward us Americans?

Admiral RADFORD. I think all over the world, in the free world, Senator, that the people do look to the United States for hope. If they could not look to us for hope, things would be pretty bleak indeed for them.

I think they get puzzled sometimes as to exactly where we stand; it is not easy to explain in detail all over the world at any one time just exactly everything they would like to know.

But I do think that we have a great reservoir of good will and friend-

ship that we can keep.

Senator WILEY. That is the answer I was looking for. And also isn't that due to the fact that the American ideas, the ideas embodied in the Bill of Rights, the American ideas say even economically, free enterprise, the great freedoms, they are making and have made their impact upon these people, so that they would like to have some of it themselves, isn't that right?

Admiral Radford. I think so; yes, sir.

Senator WILEY. That is all.

Senator Humphrey. Admiral, we do want to thank you very much for your cooperation and your willingness to come back. We know you are very busy.

Thank you, Admiral.

Admiral Radford. Thank you.

(Whereupon, at 3 p. m., the committee was adjourned.)

# **MUTUAL SECURITY ACT OF 1956**

## TUESDAY, MAY 15, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS, Washington. D. C.

#### EXECUTIVE SESSION

The committee met, pursuant to recess, at 11:10 a.m., in the committee room, Capitol Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Fulbright, Sparkman, Wiley, and

Also present: Charles T. Lloyd, Office of Director, ICA.

The CHAIRMAN. Mr. Tracy Voorhees, you will be in charge, I pre-

sume, of the hearing this morning.

Mr. VOORHEES. I do not know that I am in charge of it, sir, but I am here to testify in regard to the mutual weapons development program, and in regard to the facilities assistance program.

The CHAIRMAN. Have a seat, and you may proceed.

You have with you Maj. Gen. Ward H. Maris, Department of Defense; Col. Andrew R. Lolli, Department of Defense, and Frank Fruitman, Department of Defense.

We also have some other witnesses on investment guaranties and

other aspects of the mutual security program.

You may proceed, Mr. Voorhees.

STATEMENT OF TRACY S. VOORHEES, CONSULTANT TO THE SECRE-TARY OF DEFENSE; ACCOMPANIED BY MAJ. GEN. WARD H. MARIS, COL. ANDREW R. LOLLI, AND FRANK FRUITMAN, DEPARTMENT OF DEFENSE

Mr. Voornees. Mr. Chairman and members of the committee, it is a privilege to appear before this committee again. I testified in regard to these programs 2 years ago at the time when I was defense adviser to our mission to NATO and Director of Offshore Procurement in

Europe.

These two programs were novel programs then. They were started in the fiscal year 1954. And since I returned from that job in Paris in the fall of 1954, I have continued as a consultant to the Secretary of Defense and have assisted the Assistant Secretary of Defense for Research and Development and the Assistant Secretary for International Security Affairs in connection with this program.

Naturally, I have a very deep interest in these programs, because I had a hand in starting them, and I believe that they are producing a very large benefit to the security of the United States in proportion to the relatively modest amounts which we have put in them.

Knowing the very tight schedule of the committee, my oral testimony will be very short, and I will try to supplement it for the record,

if you will permit me to do so.

## MUTUAL WEAPONS DEVELOPMENT PROGRAM

Let me speak of the mutual weapons development program first. From the very nature of this there is not much of it that can be made public. I have a short statement about it which can be made public. This is the same material which was previously presented publicly to the House Foreign Affairs Committee, and it was impossible to change it very much because there was nothing more that could be made public as to these highly secret developments of weapons.

I would like to have that inserted in the record, and I can add to it.

The CHAIRMAN. It will be inserted, if you wish.

Mr. VOORHEES. Thank you, sir. And I should like to add to it a typewritten statement that I have here, indicating the objectives of the program and the amounts which the United States has contributed and the amounts which the other nations have contributed.

I will explain those later, but if I might, I would like to put the

two papers together to go into the record.

The CHAIRMAN. Yes, sir; they will go in. (The statements referred to are as follows:)

#### STATEMENT OF TRACY S. VOORHEES

Mr. Chairman and members of the committee, I appear today as a consultant to the Secretary of Defense. Previously I served as defense adviser to the United States mission to NATO, and prior to that as Under Secretary of the Army

The addition of the military inventive capability of Western Europe to that of the United States, in order to continue to outpace the Russians in the development of new defensive weapons, is now possible through the mutual weapons development program, which is part of our United States military assistance to our This is an immediate method of offsetting the accelerated development of military scientists and engineers by Russia.

This weapons development program began in 1953 when the United States started to assist six European nations in speeding up for NATO use their own

promising developments of new nonnuclear weapons.

I was greatly interested in the recent statement of Congressman Thurmond Chatham to the House Foreign Affairs Committee in which he described—from his own war experience—the great extent to which scientists of European nations had been responsible for the invention of so many of the new weapons which turned the tide in favor of the West in World War II. Responsible United States military scientists today believe that the aggregate military inventive potential of the European NATO nations, including England and now Germany, at least equals that of the United States.

An intergovernmental arrangement is now in process between the United States and Germany for the extension of the mutual weapons development program to Germany under arrangements by which German military science so supported will be working on a mutual basis with other NATO countries to develop new weapons for NATO. A distinguished group of United States scientists and military research and development personnel is now in Germany conducting

further discussions with the Germans as to this work.

#### PROMISING WEAPONS DEVELOPMENT

There are many highly promising weapons now under development under our mutual weapons program. Most of these can be described only in executive session. But among those concerning which military security permits public discussion are the development of a new light fighter bomber, and pilot projects for tropospheric-scatter and ionospheric-scatter communications systems.

Work on the light fighter was started pursuant to a requirement given to us 2 years ago by Gen. Lauris Norstad, recently named to succeed Gen. Alfred M. Gruenther as Supreme Allied Commander for Europe. His requirement was for a small plane which could take off from a cow pasture, fly almost the speed of sound, which could land almost anywhere and so be easily dispersed for protection against atomic attack on the ground; and which would cost only a small fraction of the prices of the much larger United States fighter bombers. Three types of this light fighter, now being developed in France and Italy, will be flying within the next few months. All of them will be powered by a new jet engine which the British are developing, also under our mutual weapons program. This fighter is one phase of our effort to assist the Europeans in creating, to meet their special needs, their own weapons, which they can manufacture themselves and so decrease their dependence on continuing United States military aid.

The scatter communications systems—pilot projects for which, also being financed under the program, are now under construction—will, when the entire system is completed, give a militarily secure, relatively jamproof communications system extending from northern Norway through all the European capitals to eastern Turkey. This communications system is not only for air defense,

but will also serve as an instrument of command for SHAPE.

The plan for this communications system was worked out by the SHAPE Air Defense Technical Center at The Hague, which was itself also created and financed as a part of the mutual weapons development program, and is now directing the carrying out of the pilot communications projects above mentioned.

Negotiations are also now under way for the extension of the mutual weapons

development program to Japan.

#### FACILITIES ASSISTANCE

The facilities assistance program—also a part of the United States military assistance—was launched in 1953 to bring the European production capacity for chemical components of ammunition into balance with Europe's much greater production capacity for metal components. This, like the mutual weapons development program, is being done under agreements through which the European nations share the cost with the United States. This program is also now assisting on a mutual basis in the creation of facilities by which the European NATO nations can themselves maintain the large amounts of weapons which the United States has furnished them as part of its military assistance.

#### OBJECTIVES OF MUTUAL DEVELOPMENT PROGRAM

I should like to summarize the objectives of the mutual weapons development

program, as I see them:

1. To mobilize the scientific and technical competence of our allies in a way to stimulate the attainment of a more effective defense through mutual assistance in military research and development within existing security and funding limitations.

2. To increase the defense capability of friendly nations through accelerating the development of advanced types of weapons which can be produced and maintained within the economic framework of the countries concerned, with decreasing dependence upon United States grant military assistance.

3. To add the military inventive capabilities of our allies to those of the United

States for defense of the free world.

4. As an important byproduct, to assure to the United States any new technical

knowledge so developed.

5. To encourage friendly foreign countries to take more effective and better coordinated measures to improve their research and development efforts for collective defense.

6. To render both Allied and United States military research and development

more effective through better coordination and technical assistance.

7. To assist our allies in the high costs involved in expanding their military research and development programs.

8. To reduce United States costs over the longer term for continuing replacement of United States-furnished equipment as it becomes obsolete, and costs for the furnishing of spare parts and maintenance for United States equipment.

## AGREEMENTS CONTAIN CONDITIONS

I also wish to note that our agreements with other governments include certain conditions that the countries must be willing to accept. The country must agree to:

1. Participate equitably in the financial support of the project.

2. Make available to authorized representatives of the United States all re-

search and developmental information concerning a supported project.

3. Safeguard the security of any United States classified information which may be made available in connection with the project, and the security of the development itself.

4. Make available to the United States Government for use of the United States Armed Forces, only, should the latter desire such use, any weapons or

weapons systems resulting from such developments.

5. Make available on equitable terms any weapon or weapons system resulting

from such development for use in defense of the free world.

In summary, this program has now been in effect for nearly 2 years. Of the original projects included in the initial fiscal year 1954 program, 6 have been concluded successfully and are being made available to NATO countries for consideration, 12 are expected to be completed by June 1956, and 11 will need additional time for completion of their development. One project has been canceled. Three others are now under consideration for termination, but valuable information, which may well save large expenditures in offshore procurement, has resulted from two of these.

The extent of participation by the countries of origin in the mutual weapons development program projects is shown by country—on a classified basis—on page 187, volume IV, Mutual Security Program Presentation Book. The unclassi-

fied grant totals as of March 1, 1956, are as follows:

Fiscal year	United States aid obliga- tions	Country participation	
		Under project	Prior to project
1954	\$19, 094, 500 21, 353, 990 25, 153, 605	\$22, 703, 500 11, 624, 659 14, 749, 574	\$18, 295, <b>700</b> 10, 390, 280 23, 866, 993
Total	65, 602, 095	49, 077, 733	52, 552, 973
Total development costs		• • • • • • • • • • • • • • • • • • • •	_ 101, 630, 706
Percent United States share of total costs			

#### DEVELOPING MILITARY INVENTIVE POTENTIAL

Mr. VOORHEES. One of the principal purposes of the program, broadly speaking, as mentioned in the statement above, is to add the military inventive potential of Europe, and now Japan, to that of the United States.

Last fall when Lewis Strauss brought out the very disturbing information as to the rate of production of engineers and scientists by Russia, which was considerably exceeding the production of those persons in the United States, it seemed to me it highlighted the importance of this program.

I have had very extensive, studies made of the military inventive potential in Europe. The judgment of qualified military scientists

is that, in the aggregate, the inventive capabilities of the Europeans

for weapons are at least equal to those of the United States.

That includes now, of course, the United Kingdom and Germany. We have a team of distinguished scientists who are in Germany today in connection with and for the purpose of adding the German capabilities to those of ourselves and the other NATO nations.

This follows the negotiation of an agreement with the German Government for this purpose, for which I went over there last September, and met with the Minister of Defense and General Heusinger,

who has the responsibility for building up the German Army.

While I am speaking of Germany, we consider it of the very, very greatest importance to have the marvelous German military inventive powers devoted to NATO on a disclosed basis instead of being utilized solely for Germany on a secret basis.

#### NEW WEAPONS DEVELOPMENT

As we worked out this program—and I want to say the men who did the most to develop this program, up until last summer, anyway, were Mr. Quarles, who was then Assistant Secretary of Defense for Research and Development, and Maj. Gen. Ward H. Maris (retired), who had been in charge of the United States Army's research and development program for 3 years before his retirement at the

end of 1952. General Maris is sitting here.

I was extremely fortunate in getting General Maris to come as my deputy when I had the post in Paris. With the great knowledge he had of this, I delegated very broad powers to him. I claim no scientific knowledge whatsoever myself but I assisted in the planning. General Maris headed a research and development group from the Defense Department which made a survey under Mr. Quarles' direction. They visited six countries: the United Kingdom, France, Belgium, Holland, Norway, and Italy. We could not include Germany then, because the treaty had not been signed and Germany had not yet become a member of NATO. This group obtained the disclosure of the most secret developments of new weapons and equipment. That was accomplished initially on the basis of bilateral discussions.

#### PROJECTS APPROVED

They selected approximately 36 projects which they recommend be considered for support by the United States. At that time the law required that they be approved by the President.

These were passed on by the respective services and by Mr. Quarles'

office, and almost all of these were approved by the President.

Then we entered into bilateral, government-to-government agreements with each of these nations. The essence of those agreements was the following points:

# CONDITIONS ON PROJECT AGREEMENTS

First, any weapon resulting from a project to which we had contributed financial assistance or technical assistance would be made available to the NATO nations, subject to proper security requirements. Thus each nation was in effect working for all the NATO nations instead of for itself alone.

The tremendous advantage of coordinating the research and development in Europe will be illustrated as I discuss certain weapons on which, where we found that several nations were struggling independently with the same problems, and without the benefit of possible technical assistance from us.

This program has gone quite far to correct that. The second condition which we attached was that any weapon or weapons system resulting from this research would also be available for use by the United States Armed Forces if desired.

So in a very real way, this added the European inventive potential to that of the United States.

In the first year of this program, we selected only those projects on which considerable progress had already been made by the nation of Therefore, you may say we selected the cream of the developments which these nations had under way.

#### IMPORTANCE OF NEW WEAPONS

I was interested in reading some of the testimony on record before the House Foreign Affairs Committee by an old friend of mine, Thurmond Chatham, a member of the committee. He had apparently made a statement just from his own World War II experience, of the extent to which the weapons developed in Europe or the key inventions which came from Europe helped in World War II for the free

His statement is not very long. I thought perhaps you might care to have it included in the record here. It is in the House record. It is an extremely interesting statement.

The CHAIRMAN. It will be included in the record, yes, sir.

Mr. Voorhees. Thank you, sir. (The statement referred to is as follows:)

STENOGRAPHIC TRANSCRIPT OF HEARINGS BEFORE THE COMMITTEE ON FOREIGN AFFAIRS, HOUSE OF REPRESENTATIVES 84TH CONGRESS, 2D SESSION-MUTUAL SECURITY ACT OF 1956

Mr. Chatham. Thank you, Jim. I want to make an interesting statement, I believe, to the committee and for the record, and there is nothing secret about it. It was top secret at the end of the war. I think it will undoubtedly interest Mr. Gray, although probably he has the information.

In evaluating the need for allies, I helped prepare for Mr. Forrestal the last part of the war a paper, which I have in my possession and which was top secret then, with then Commander Sackenberg, now Admiral Sackenberg, who I believe was the Chief of the Bureau of Ordnance. I had been in Ordnance the first part of the war, but I went to sea. It shows what weapons won the war and where they came from.

I have from memory 14 here written down; I think we had 20. I think it would be interesting to the committee and to Mr. Gray, if he has it in that shape, to go over those.

I will start with radar, which was invented by some British scientist, who found that if you shot this beam out it came bouncing back.

Because of radar, and the Japanese were using binoculars better than anything the Germans had made, who were able to see at night ships and planes and shoot for our landings, which I was doing for nearly 2 years on American cruisers. We had the topographical maps, and each ship shot for a certain grid.

This was British. The jet plane was invented in England and taken up by the Germans in the last few years of the war and played havoc with our bombers. It went through them in formation and shot them up. The first Messerschmitt, which the Germans took from the first British jet, and they continued to make

the better jets, as shown by the fact that they flew one at level flight at 1,132 miles an hour where we had the world's record of something like 800 miles an

The erlikon gun which we armed our merchant ships with, put on all our ships, were 20 millimeter, Swiss, and are being made in South Carolina, under Swiss patent. It became a revenge weapon. We couldn't reach them after they had dropped the torpedo, but as they came on in many were destroyed.

The Bofors gun, which became the great antiaircraft weapon of the war. I think the Navy uses it still. It was a Swedish gun. They were brought here during the war. We had a little 1.1 gun that exploded and killed a lot of people.

The electric torpedo was invented by the British, which we used in the last part of the war. We had a bad experience the first part of the war in the Navy. Our torpedoes didn't explode. We had a Mark 6 exploder, and the people who tried to arm it didn't know enough about it to set it, and we hit merchant ships, went under merchant ships, and these submarine commanders who risked their lives in going after Japanese ships would miss them by not having them explode.

Torpex was a much stronger explosive than TNT. It was twice as strong.

British. We adopted it for torpedoes and bombs.

The proximity fuse, which had a great deal to do with the war and was assembled in Winston-Salem in a plant which Chatham leased to the Navy. It was assembled there. It is the heart of the guided missile, and has been publicly stated, that when a missile gets near a plane and doesn't hit it, the tube, due to this fine thing in the tube, if it is maybe 100 or 200 yards, the thing ex-It gets rebound from the plane like radar.

It was brought here by a German-Jewish refugee named Dr. Sachs in 1942. In 1942 somebody brought him to me and said that he had a proximity fuse. took him to the Chief of the Bureau of Ordnance. They did nothing for a while, and then they began to think about it. They brought him in, but we were many months late because of not taking it at first. That is No. 9.

Loran, which means there will never be any more good navigators except amateur yachtsmen. You can have a device in a plane and get it fixed with a point at Newfoundland, New York, and South Carolina, and where those crosslines hit, that is your position at sea. We could always hit a half mile if we got a star or the sun, but never in bad weather, and we had to use all kinds of navigational things. It has knocked out navigators. And radar. Our modern radar will bring up a buoy a long way away.

Submarine defense was British. They developed it. The great defense against a submarine is another submarine. They detect them from underwater devices

in the submarines and by destroyers on the surface. Sonar.

Mr. Fulton. Sonar was British?

Mr. Chatham. Yes. You sent an impulse through the water and it hits a submarine with a ping. If you hit a whale, it is the same thing. Many whales were bombed. I have seen thousands of fish who were bombed. We had a ping. I have seen thousands of fish who were bombed. were bombed. They were killed and came to the surface, but we were in waters where we couldn't stop to pick them up.

The convoy system was completely British, because I was on a converted yacht as a seaman in the first war trying to shepherd them out of Norfolk.

The depth charge was British, the real antisubmarine device. They invented

a hedgehog pattern, which we had on all our destroyers.

No. 13, the atomic bomb was brought to Roosevelt by Mr. Churchill after the scientists had seen Einstein's formula, developed and put together by Neils Bor, Dane, and Fermi, an Italian, who Louis Strauss had brought over here for research on cancer, who had set up a cancer fund because his mother and father died of cancer.

I think it is rather interesting to think that we are talking about helping our allies, and practically the war was won-we carried them all. great people for that. But everything I have here—I think there were 20 items that we gave Mr. Forrestal that we all know about now—they considered those

won the war, and not a one was basically discovered in this country.

Mr. VOORHEES. In the first phase of the program we took a most promising series of projects. I would like to explain some of these projects if you would permit me to do so. It is very hard for me to explain them in language for a layman to understand. Therefore I have picked out a few projects that I thought might be especially

interesting and illustrative.

[Deleted.] Let me say with this respect to the financial aspect of this program I should indicate our share of it. The nations have put about \$100 million into these developments against about \$65 million that the United States has contributed. These nations had put about \$52 million into these developments before we made any investment. Their current share is about \$48 million.

[Deleted.]

#### UNITED STATES FIGHTER PLANES FOR EUROPE

In 1955, we had a little different situation. General Norstad, who is now going to assume General Gruenther's position, had found that he would need for NATO use a type of plane that the United States Air Force did not have a need for. This would be a light fighter bomber for tactical support of ground troops which would be about a third as big and about a fifth as expensive as any fighter bomber plane that we are delivering to NATO.

The advantages of this would be not only the lack of expense [deleted] but it could take off from a cow pasture, and could land al-

most anywhere.

With the Russians having an atomic capability, planes gathered on a great big, long runway were just natural atomic targets, and you could lose the planes and airfields, too.

[ Deleted.]

The reconnaissance plane will cost about a sixth as much as our reconnaissance planes that we are furnishing, and they can be built there.

General Maris worked this thing out. They had a competition. Finally three types were selected.

[Deleted.]

So this is perhaps one of the most important projects that we have.

Now, this is one project which can be discussed generally without violating security restrictions. Information as to it has been released before, and it is in the public statement that I made to which I have referred.

#### SHAPE AIR DEFENSE TECHNICAL CENTER

We also had another requirement from SHAPE. This proposal was an extremely new thing for us, but we did it. They felt the need of a SHAPE air defense technical center.

The air defense of Europe had not been made a SHAPE responsibility. It was a national responsibility of each different nation.

Well, you can look at the map of Europe and you can see how utterly impossible it is to have an air defense with many nations, with irregular boundaries, and so forth. General Gruenther felt that he needed a technical center to assist SHAPE in advising the nations what to do.

SHAPE now has a coordinating responsibility. Well, we figured that if we could develop weapons, certainly a technical center which SHAPE needed was as important a weapon as we could think of. So this was set up in Holland. The survey was completed in August.

and we made an agreement in December; and then there resulted from that last summer, due to the work of the center aided by a very brilliant Massachusetts Institute of Technology scientist, Dr. Hill, and Dr. Weisner, who went over there—and let me say, these people had been the people instrumental in the development of our own DEW They drew up a plan for a communications system.

Such a system was not previously available there. You need it not only for automatic defense, but you need it for command. This scatter communication system is not classified, but it is a new idea.

#### AIR WARNING SYSTEM

It is possible, I would say, to bounce—it is a rough word—a radio beam, a very powerful radio beam, up against the troposphere and have it come down again and be picked up at another tower two hun-

dred-odd miles away, and then to relay it in the same way.

And for a cost of less than \$50 million, a complete communications system could be established from a northern tip of Norway to eastern Turkey, to every capital, as an instrumentality of SHAPE, where it could be manned 168 hours a week, and provide a warning facility to these different nations.

[Deleted.]

Now, the reason I am terribly interested in this is that this will be connected with an early warning system which will also be SHAPEcontrolled, and money is provided for that in the bill which is before you.

# COST OF THE SYSTEM

Senator AIKEN. Are they expensive towers?

Mr. VOORHEES. The total cost, taking United States prices which may be higher than the others, is estimated at between \$40 million and \$50 million; and, of course, these nations will share in the cost.

Senator AIKEN. Is that for each tower, or for the system?

Mr. Voorhees. No, sir; that is the whole system. Senator Aiken. And you could have alternate systems?

Mr. Voorhees. Yes, sir.

The mutual development weapons program helped to develop the plan; and then get it started by supporting two pilot projects.

Deleted.

These things are actually being constructed now.

We have obligated for the mutual weapons development program, all told, only \$65 million. That is a lot of money, but compared to the billions of dollars we are putting in in aid, I feel it is an extraordinarily useful thing.

Deleted.

Senator Fulbright. Does it not occur to you that we may be adopting the same attitudes as the French did about the Maginot Line? Mr. Voorhees. I would not say that, sir.

Senator Fulbright. You would not?

Senator Fulbright. And what occurs to some of us is, it may be that some of this money you put in the DEW line might be better spent in educating scientists. Did that ever occur to the military?

Mr. Voorhees. I don't know, sir.

[Deleted.]

I have tried to give you these practical illustrations, because it seems to me this gives an indication of what I believe is an imaginative program which can do a great deal of good for the protection of our country, and for the strengthening of the NATO alliance and the free world, including Japan.

## FACILITIES ASSISTANCE PROGRAMS

I should like to speak for just a moment, if I may, about the other program, the facilities assistance program, and I have an unclassified statement as to that which has been furnished to you.

Three years ago the European capability for production of the metal components of ammunition was more than five times as great as the

capability for production of the chemical components.

NATO had been working with it for a couple of years. Someone—I cannot claim any credit for this—had gotten an appropriation, I

think initially of \$35 million, to do something about this.

In any case, I succeeded in getting Lt. Gen. Thomas B. Larkin (retired) to supervise that program for me, and the Army ordnance people did a large part of the work. We went around and located the places and the factories which could be built up to balance the European production capability. We have obligated so far in that program about \$57.5 million. The Europeans have put up about \$52 million, and we have very greatly increased their capability.

This program is now being extended to certain facilities for maintenance of equipment which we have given them, and to a certain extent in the way of assisting them in modernization of the NATO forces.

For example, one of these facilities will cover the production of a new round of 30-millimeter aircraft ammunition with a much larger explosive charge than the 20-millimeter round now in use. The gun will have a very high rate of fire, which will increase the effectiveness of the airplanes using it.

The United States is helping to establish production lines for this on a mutual basis. I won't go into other illustrations of that, but I would appreciate it if this statement might be put into the record,

which is an unclassified statement.

The CHAIRMAN. Yes, sir.

(The statement referred to is as follows:)

#### FOREIGN MILITARY FACILITIES ASSISTANCE PROGRAM

The foreign military facilities assistance program is concerned with the establishment and expansion of facilities required for and the manufacture and maintenance of essential military equipment and components in certain foreign countries.

#### OBJECTIVES OF PROGRAM

The objectives of this program are-

1. To encourage and support the efforts of friendly countries to become self-sufficient in the manufacture and repair of munitions and components thereof,

thus reducing dependence on United States for military aid.

2. To provide for development, and mutual uses as may be necessary, of defense production and maintenance capacity in friendly countries which will provide close-up support from indigenous sources and reduce the hazards and delays incident to a long line of supply from the United States. It is necessary to estab-

lish logistical support near the areas of potential combat so that military items with a high attrition rate will be readily available when needed. In the event of war, it is likely that the larger ports would be destroyed by nuclear weapons and that the Russian submarine fleet would seriously menace the ocean supply routes. Consequently, it is important to the defense of the free world that Europe and the Far East develop munitions production capacity to support themselves for an extended period.

3. To utilize available resources of the free world in the most efficient manner and in times of peace enable friendly countries to maintain their own forces at

their own expense.

Facilities assistance projects must add either to the total capacity of facilities or make a necessary improvement of a product or service. Countries must contribute an equitable share toward the projects for which United States assistance is requested and make available on a nondiscriminatory basis the end products and services of the facilities, for which United States assistance is requested for mutual defense of the region to other free nations. The foreign country receiving aid must commit itself to maintain for emergency use the productive capacity of both its existing facilities and those built with the assistance of the United States. All facilities are established to satisfy regional rather than strictly country requirements.

This program has been characterized by the exceptional competence and caliber of the people we have obtained to administer it, the few numbers of such people and the cooperation of United States industry. Before the United States accepts a project, it is carefully studied by military personnel and by engineers from prominent American industrial firms. Every effort is made to secure the maximum value from United States contributions and the maximum contribution from foreign countries. The United States furnishes production equipment and technical assistance, while the foreign government provides land, buildings, labor, materials, and some equipment. Thus, projects are jointly financed. To date, the

foreign governments have met almost half the cost of the program.

#### MAINTENANCE OF EQUIPMENT

Approximately \$12.2 billion worth of military assistance equipment has been shipped to our allies, and another \$5 billion has been programed. Maintenance of this equipment will undoubtedly be extremely costly, e.g., annual maintenance cost of ordnance equipment is approximately 15 percent. Establishment of facilities for producing spare parts and for overhaul in Europe and the Far East will help to prevent this equipment from becoming inoperative through attrition and cannibalization. The alternatives of returning the equipment to the United States for overhaul and repair or issuing new equipment are both expensive and time consuming.

Some of our allies have the production capacity to maintain the equipment furnished by the United States, but many of the recipient countries do not and they will need maintenance assistance in the form of spare parts and repair work

until the necessary local facilities are established.

The cost of maintaining equipment increases with its age. It is anticipated that within 2 or 3 years the burden of maintaining equipment furnished as grant aid will reach a peak. To enable our allies to assume the maintenance burden gradually, we should help establish facilities before the peak is reached. NATO has recognized the importance of this problem and is studying the feasibility

of regional maintenance facilities.

During fiscal year 1955 the United States undertook development of 2 major maintenance projects at a cost of approximately \$1 million, 1 for the rehabilitation and repair of ammunition and 1 for the overhaul of naval fire-control It is estimated that \$10.5 million will be obligated in fiscal year components. 1956 for facilities to overhaul specialized military equipment (including aircraft repair facilities, artillery recoil repair facilities and fire-control repair facilities).

#### MODERNIZATION OF NATO FORCES

The facilities assistance program enables the United States, at a minimum cost, to assist the NATO countries to modernize their military equipment.

It is desirable to obtain a maximum contribution from European nations in the utilization of their own production facilities to reequip their forces with modern types of European-designed weapons. These weapons can be maintained more easily if the various components are readily available from nearby European sources. The foreign military facilities assistance program contributes to the achievement of this objective by assisting countries in the establishment of production facilities for modern weapons when the weapons are ready for field

The following production projects have been programed as part of this

modernization of equipment program:

1. A new round of 30-millimeter aircraft ammunition containing a much larger explosive charge than the 20-millimeter round now in use. The gun firing this round gives it a very high rate of fire, which, in combination with the increased explosive charge, makes it effective against fast-flying enemy aircraft. The

United States is helping to establish production lines.

2. A new 7.62-millimeter round of rifle and machinegun ammunition which is much shorter and weighs less than the United States .30-caliber round. It has excellent range and killing power, and the reduction in weight is a logistical improvement. The 7.62-millimeter rifle, which can be used as a semiautomatic rifie or as a fully automatic weapon, provides the NATO forces with much greater firepower. The United States has helped to set up facilities to make ball powder and metal components of the ammunition.

A new 40-millimeter round of antiaircraft artillery ammunition for the new L-70 gun which has about twice the rate of fire of the existing 40-millimeter (L-60) gun and a much longer range. It is designed for use against low-flying aircraft. The United States is including facilities for manufacture of compo-

nents and for loading in its fiscal year 1956 program.

4. European-designed guided missile projects are also being evaluated and will

be considered for inclusion in the fiscal year 1957 program.

Mr. Voorhees. May I say as to the mutual weapons development program for next year, we have a great opportunity in Germany. cannot tell exactly how we will use it until this group gets back from Germany in about a week or two, and even then, of course, it will remain to be worked out.

We want to consider what the Germans think they need, and to assist

them in those things.

And, of course, in Japan, as I pointed out, there are things which

have not been definitized.

No research and development program can be definitized that much in advance. We are asking, for this program, \$58 million this year; however, it will be a part of the military assistance program, and it can be increased or decreased as the need develops during the year.

What we are trying to do today is to give a complete explanation of how we are utilizing the United States money that is given to us.

I thank you very much for your patience.

The CHAIRMAN. Any questions?

Senator Wiley. I want to compliment the witness.

The CHAIRMAN. Would any of the other witnesses here with you like to add to what you have said?

Mr. Voornees. General Maris was here in case I got into too deep water. But I don't think there is anything further we need to present.

The CHARMAN. Is there anything else you wish to state?
Mr. Voorhees. Nothing else, and I very much appreciate the oppor-

The CHAIRMAN. We have witnesses here on the investment guaran-We will be glad to hear you regarding the investment guarties.

Mr. Houston. Thank you, sir. I have a short statement which I would like to read, if the chairman please.

The CHAIRMAN. Yes, sir.

# STATEMENT OF CHARLES E. HOUSTON, CHIEF, INVESTMENT GUARANTIES STAFF, INTERNATIONAL COOPERATION ADMINISTRATION

Mr. Houston. My name is Charles Houston. I am Chief of the Investment Guaranties Staff of the ICA.

I should like to sketch the background of the guaranty program, report on where the program stands, and describe the nature and effect

of the changes proposed in the guaranty authority.

The purpose of the guaranty program is to assist the development of friendly foreign countries by encouraging and assisting the investment of private United States capital in them.

## PURPOSE OF INVESTMENT GUARANTY PROGRAM

The investment guaranty program contributes in several ways to the movement of investment abroad.

1. It provides a specific insurance for prospective investors who hesitate to proceed without protection against the risks that can be

covered through the program.

Senator Green. When you speak of "friendly countries," do you mean they are now, have been, or may be friendly? What is the definition?

Mr. Housron. The statutory authority provides that the guaranties shall be available for investment in any country with which the United States has agreed to institute the program.

Senator Green. Is there a list of such countries? Mr. Houston. Yes, sir; there is a list appended.

Senator Green. Is that appended here? Oh, I see it in the back. Mr. Houston. The total number of countries participating at the present time, sir, is 30 countries. Also, the availability of guaranties has encouraged some investors to explore investment opportunities and to make investments without actually obtaining guaranty contracts.

2. Participation in the program by foreign countries is based on a specific agreement between the United States and the country concerned. Thus, the program furnishes a convenient way for countries to demonstrate their desire to attract United States capital and their willingness to take the steps reasonably open to them for that purpose. In this connection, a significant but little appreciated achievement

In this connection, a significant but little appreciated achievement of the program should be mentioned—the completion, with more than 20 countries, of agreements providing for compulsory international arbitration of claims which may arise in the event a guaranteed investment is expropriated.

3. The program is concrete evidence of the intention of the United States, as a national policy, to encourage and assist private capital

to go abroad.

It has been stated, repeatedly, that it is United States policy to encourage foreign investment; the creation of the investment guaranty program is one of the principal specific actions that has been taken to further that policy.

#### GROWTH AND DEVELOPMENT OF PROGRAM

When first authorized in the ECA Act of 1948, the purposes and coverage of the program were somewhat limited. The purpose was primarily to encourage a movement of private capital to supplement or replace public funds in the program of European recovery, and the only risk that could be covered was the partially financial and partially political risk of exchange blockage.

Since 1948 the program has developed along two lines:

The first was the extension of the guaranty principle to cover not only exchange blockage but a broader range of political risks which deter foreign investment. Such a broadening was proposed in 1949 and a limited extension of the insurable risks was achieved in 1950 when guaranties against loss from expropriation or confiscation were authorized. A proposal to authorize guaranties against loss resulting from war or revolution has been considered on several occasions, but that authority has not been obtained.

A second line of development was the extension of the program from the Marshall-plan countries to all countries receiving United

States aid, and in 1953 to any friendly country.

These developments clearly suggest that the program is now regarded in a broad sense as a means to further the general national policy to encourage the development of friendly countries through private capital and private institutions, certainly including but not confined to being a corollary to or a substitution of private for public funds in foreign aid activities.

Stated otherwise, the program is designed to demonstrate that the values, often largely intangible, that accompany private investment

and private enterprise deserve support in their own right.

The problem of how to bring about a free flow of private capital in a troubled world is not an easy one to solve. The guaranty program alone is not the answer to it, but the program is making an increasing contribution, and it should be thought of as one means to obtain the benefits of private investment.

#### ACTIVITIES OF PROGRAM

I should like now to report on recent activities related to the pro-

gram, and on where it stands at this time.

On December 31, 1954, the total of guaranty contracts issued during the life of the program stood at \$48,611,912. On December 31, 1955, the total was \$94,552,013, an increase of 95 percent; and the present total is \$107,013,276.

After deducting cancellations, reductions, and expirations, this leaves outstanding at present guaranty contracts with a face value as of March 31, 1956, of \$85,194,552. A number of substantial contracts relating to a variety of projects in Asia, Europe and Latin America are nearing completion now.

# INCREASING INTEREST IN PROGRAM

The flow of applications received indicates an increasing interest in the program in the business community. On December 31, 1954, applications in process amounted to approximately \$141 million. On

December 31, 1955, the total was some \$273 million, an increase of 194 percent. Since the beginning of calendar 1956, more than \$70 million of new applications have been received.

Applications in process cover a wide range of enterprises and countries, and range in size from a few thousand dollars to several

millions.

At the end of March 1956, fees totaling \$1,489,072 had been collected; of this amount \$322,235 were received during the 12 months to the end of March.

No losses have been paid. The annual cost of operating the program

is estimated at \$92,000.

#### WIDENING GEOGRAPHIC SCOPE

During 1955 the geographical scope of the program was broadened through the completion of guaranty agreements with 10 new countries, raising the total of participating countries to 30.

Eight of the 10 countries that came into the program in 1955 are Latin American countries. Thus, for the first time, the program has

a significant area of operation in Latin America.

A number of applications for guaranty of investments in Latin America are in process and more are being received. The first guaranties covering an investment in a Latin American country—Guatemala—were recently issued. Other contracts covering investments in that area are nearing completion.

Negotiations in connection with guaranty agreements are in process with a number of countries in Latin America, the Middle East, and

Asia.

Two principal changes are proposed in the guaranty authority in the draft legislation.

#### EXTENSION OF AUTHORITY

The first change would extend the authority to issue guaranties from June 30, 1957, to June 30, 1962. The continuity which this change would give to the program is important to prospective investors who have long-range investment plans in which guaranties have a part.

It is also important in the negotiation of guaranty agreements with foreign countries, several of which have raised the point that their participation would have little significance if the program is to end in

a relatively short time.

# INCREASED FUNDS FOR GUARANTIES

The second change would increase from \$200 million to \$350 million the amount of guaranties which may be issued. The volume of contracts issued, the amount of applications in hand, and the increasing flow of new applications suggest a need for increased issue authority.

However, no new obligational authority is requested. The enlarged issue authority proposed would be backed by the present authority of the Director to issue notes. Thus, the result of the proposed change would be to use resources now available to support a larger total of guaranty contracts.

Should the proposal be adopted, future guaranty contracts would be backed by a fractional reserve, rather than by a 100 percent reserve

as at present. Contracts now outstanding, or issued before the effective date of the change, would have full coverage.

#### FRACTIONAL RESERVE PLAN

The following considerations have led to the conclusion that a frac-

tional reserve plan is appropriate in the circumstances:

1. Guaranteed projects are widely dispersed geographically. It is believed unlikely that convertibility and expropriation guaranties in all the countries concerned will be called upon.

2. It is expected that payments made pursuant to guaranty contracts

would not be total losses.

If payment is made under a guaranty, the United States would take over the investor's currency or claims. Under the proposed legislation, proceeds from the disposition of these currencies and claims would be available for further payments under guaranty contracts.

3. Many investors obtain both convertibility and expropriation guaranties to protect the same investment. It is believed unlikely that both guaranties would be invoked to their total face amounts. ever, under present procedure, both guaranties are charged, in full, to the guaranty authority.

The ICA believes that the changes proposed in the guaranty authority would give the program continuity which would increase its usefulness, and would permit more effective use of the resources allocated

to it.

(The material attached to Mr. Houston's statement is as follows:)

COUNTRIES PARTICIPATING IN THE INVESTMENT GUARANTY PROGRAM GROUPED BY CALENDAR YEAR OF FIRST PARTICIPATION 1

Total, 1955	10	Total, 1951	1
Bolivia		Turkey 2	
Colombia <sup>2</sup>		Total, 1950	1
Costa Rica		Germany	_
Ecuador		Total, 1949	5
Guatemala		Austria	•
Honduras		France	
Ireland		Greece	
Pakistan		Italy	
Paraguay		Netherlands	
Peru <sup>2</sup>		Total, 1948	2
Total, 1954	2	Norway	4
Japan	~	United Kingdom <sup>2</sup>	
Thailand		Omited Kingdom	
Total, 1953	3	Grand total	30
Haiti	U	Grand total	ĐΨ
Portugal		1	
Spain			
Total, 1952	6		
Belgium	U		
China (Formosa)			
Denmark			
Israel			
· · · · ·			
Philippines			
Yugoslavia			

<sup>&</sup>lt;sup>1</sup>The original guaranty authority provided for convertibility guaranties only. When expropriation guaranties were authorized, it was necessary to negotiate separate agreements with the countries which had already signed agreements covering only convertibility guaranties.

In this table, countries are grouped on the basis of their earliest participation in the guaranty program.

Agreement covers only convertibility guaranties.

# Investment guaranties issued through Mar. 31, 1956

Investors	Product	Converti- bility	Expropri- ation
Belgium: Smith-Corona, Inc. China (Formosa): Westinghouse Electric	Typewriters	\$72,000	\$60,000
International Co.	Electric generating equipment	2, 140, 320	1, 881, 600
Denmark: Ray-O-Vac International, Inc	Leak-proof batteries	182, 500	
France:			
Armstrong Paint & Varnish Works Clark Equipment Co	Paints and varnish Materials handling equipment	12,000	
Concrete Chemicals Co	Concrete admixes	479, 250 90, 000	
Corbart Refractories Co., Inc Dana Corp	Refractories	70,000	
Dow Corning Corp	Automotive partsSilicones	200, 000 304, 950	
Ford Motor Co Foster Wheeler Corp	Trucks and cars	920, 108	
Fruehauf Trailer Co.	Construction engineer Truck trailers	213, 500	
Fruehauf Trailer Co. Harshaw Chemical Co. Heyden Chemical Corp.	Ceramic colors	437, 500 200, 000	100, 000
Hohenstein Walter P	Stieptomycia.	300, 000	
Hohenstein, Walter P. International Water Corp.	Polystyrene	56, 000 51, 000	
Koppers Co Lincoln Electric Co Morrison-Knudsen Co., Inc.	Styrene monomer	465, 000	
Morrison-Knudsen Co., Inc.	Welding materials Construction engineer	1, 072, 636	<del>-</del>
National Fastener Corp	Slide fasteners	252, 000 17, 500	
Rohm & Haas Co. Singer Manufacturing Co.	Agricultural fungicides Sewing machines	441, 100	
Standard Oil Development Co.	Oil refinery.	717, 000 550, 000	
Do.¹ Yoder Co	Metal-working machinery	504, 000	
	wietai-working machinery	204, 500	
Total		7, 558, 044	100, 000
Germany: Godfrey L. Cabot, Inc	Carbon blusk		
Firestone Tire & Rubber Co.	Carbon black Tires and tubes	1, 000, 000 1, 841, 700	1, 052, 400
Ford Motor Co	Trucks and automobiles		8, 314, 863
E. F. Houghton & Co	Mine-car loaders Chemicals and lubricants	140, 000 93, 150	
Johns-Manville Co J. Sklar Manufacturing Co	Asphalt tile	350, 000	
National Aluminate Corp	Optical equipment. Water treating chemicals	10, 000 1, 298, 000	
Otis Elevator Co	Elevators and elevator equipment.		50, 000 250, 831
Raytheon Manufacturing Co	Radai and sonar equipment	93, 500	0.000.004
		4, 826, 359	9, 668, 094
Italy: American Home Products Corp	Pharmaceuticals	1, 082, 350	640, 572
Associated Seed Growers, Inc	Seed cultivation	475, 000 87, 500	200,000 150,000
Don Baxter	Intravenous solutions	29, 190	29, 190
Caltex Oil Products Co E. F. Houghton & Co	Oil refinery	4, 630, 000 17, 000	
Mobil Overseas Oil Co., Inc	Oil refinery	5, 600, 000	2, 800, 000
National Aluminate Corp	Cracking unit Boiler compounds	7, 234, 000 1, 331, 000	3, 617, 000
National Biscuit Co	Biscuits and crackers	900,000	271,000
Olin Mathieson Chemical Co	Industrial chemicals	11, 051, 800 192, 500	4, 275, 900
Otis Elevator Co	Elevators and elevator equipment. Building stone		
Raytheon Manufacturing Co	Electronic tubes	329,000	
Standard Oil Co. (New Jersey) Syntron Co	Oil refinery Vibratory handling equipment	14, 487, 500 36, 000	
Westinghouse Air Brake Co	Railroad equipment	60, 300	
Total		47, 563, 140	12, 083, 662
The Netherlands:	Oil heaten regulates	75.000	£0.000
A-P Controls Corp	Oil heater regulators	75, 000 2, 640, 000	50,000 1,320,000
Henry Drake	Writing ink	1,750	1,000
H. J. Baker Bro	Castor oil derivatives	16, 085 175, 000	19, 800
H. H. Sonnenberg Sparkler International, Ltd Tokheim Oil Tank & Pump Co	Industrial filters	16, 488 350, 000	200,000
Total	on with and pumper	3, 274, 323	1, 590, 800
Philippines: Rheem Manufacturing Co	Metal drums	200, 000	250, 000
hailand: Harry F. R. Dolan	Tapioca rice	49, 400	100, 000

# Investment guaranties issued through Mar. 31, 1956-Continued

Investors	Product	Converti- bility	Expropri- ation
Turkey: Bank of America	Pharmaceuticalsdodo	96, 863 2, 711, 450	
United Kingdom: Barber-Greene Co. Brown & Sharpe Manufacturing Co. Godfrey L. Cabot, Inc. Cone Automatic Machine Co. Cooper Alloy Foundry Co. Dictaphone Corp. Thomas A. Edison, Inc. Euclid Road Machinery Co. General Time Instrument Corp. Jacobs Manufacturing Co. Knott Hotels Corp. Lapointe Machine Tool Co. Leeds & Northrup Co. Metallizing Engineering Co., Inc. McGraw-Hill International Corp. Minneapolis-Honeywell Regulating Co. Pocket Books, Inc. S. F. Appliances. E. R. Squibb & Sons. Standard Brands, Inc. Universal Oil Products.	Carbon black Automatic screw machines Stainless-steel valves Dictaphones Miners lamps Earth-moving equipment Clocks and watches Drill chucks Hotel operation Machine tools Control measuring instruments Metal spray equipment Publishing Regulating instruments Pharmaceuticals Publishing Home appliances Pharmaceuticals Soluble coffee Catalyst for petroleum refining	280, 000 2, 025, 000 2, 025, 000 183, 500 250, 000 857, 500 1, 000, 000 1, 000, 000 1, 436, 100 53, 365 392, 000 103, 750 40, 000 735, 000 735, 000 750, 000 11, 011, 130	
Grand total		80, 785, 120 106, 5	

<sup>&</sup>lt;sup>1</sup> Capital goods.

The CHAIRMAN. Any questions, Senator Green?

Senator Green. Yes, I would like to ask a couple, if I may.

The CHAIRMAN. Yes, sir. Senator Green. I have not looked through the rest of this document. I think perhaps you have answered the questions there.

I was going to ask whether there was any table of the enterprises

already served.

Mr. Houston. Yes, sir; a list of the contracts which have been

issued is appended to the statement.

Senator Green. I think I found it here. It immediately follows what you have been reading.

Mr. Houston. Yes. sir.

#### FULL RESERVE ABANDONED

Senator Green. You referred to the fact that full coverage has been abandoned. I want to ask you, what do the insurance experts say? What is their comment on this change? You must have had expert advice, I take it.

Mr. Houston. No, sir. We did not consult with private insurance companies.

Senator Green. I would think the same policies would affect both private and Government insurance.

Mr. Houston. We observed that the standards in insurance companies' practice is to cover their contingent liabilities with a partial reserve. But it is not the usual practice to maintain a 100 percent reserve.

Senator Green. Well, would the change entail less security, greater risk?

Mr. Houston. No, sir. I think that our central point is this: that we believe, first of all, that the likelihood of these contracts being invoked and paid to the full maximum contingent liability is a rather unlikely and remote possibility; and that, therefore, it would be the more efficient and more effective use of the resources available to use those on a reserve or partial-coverage basis, rather than using up dollar for dollar the resources that we had available each time a new contract was issued.

Senator Green. You do think you are justified in taking a greater

Mr. Houston. Yes, sir.

#### HOW APPLICATIONS ARE HANDLED

Senator GREEN. There is a table showing the nature of the loans. Have any applications been refused? If so, for what reasons?

Mr. Houston. A very few have been refused. Our general effort or approach is rather this: that if a prospective investor comes to us and describes generally a plan that he has in mind, and it appears to us from that description that it is something that would not fit into our authority, we try to discourage a formal application; so that the instances where a proposal has come to the stage of a formal application and has then been turned down in a formal fasion, are very few, indeed, sir, perhaps 2 or 3.

Senator Green. In connection with these applications, have you forms that you send out to the applicants, stating the purposes for

which you guarantee?

Mr. Houston. Yes, sir, we have a booklet in which we attempt to

describe the program.

Senator GREEN. Do you have it with you so that you can furnish it for the record?

Mr. Houston. Yes, sir, I would be happy to furnish it for the

record.

Senator Green. Do you not think, Mr. Chairman, it should be furnished for the record?

The CHAIRMAN. Yes, sir. Furnish it to the reporter.

Mr. Houston. Yes, sir. (The booklet referred to is on file with the committee.)

#### INCREASE IN GUARANTY AUTHORITY

The CHAIRMAN. What additional appropriation is being asked for this program?

Mr. Houston. No additional appropriation is being asked, sir. The CHAIRMAN. But an increase in the amount of guaranty?

Mr. Houston. An increase in the amount of contracts which could be issued, based on the resources already in hand.

The CHAIRMAN. Yes, sir. And that is to be increased, you say, to \$350 million?

Mr. Houston. Yes, sir.

The CHAIRMAN. What are your assets now on hand? You have not

been called upon to make good any guaranty yet, as I understand it. Mr. Houston. That is correct, sir. We have not been called on to make any payments under these contracts. We estimate that at the end of this fiscal year we would have available about \$63 million of free resources available for future contracts.

The CHAIRMAN. That is all.

#### NO FAVORITISM

Senator Green. I want to know what policies you adopt when you have various applications for similar businesses. Take oil development. What do you do when rivals in these businesses apply?

Mr. Houston. We have tried very definitely, indeed, to avoid any appearance of judging or choosing or anything that might be—that might have any appearance of favoritism, and I think that the principal key to that situation is this: That no guaranty contract can be issued unless the project concerned has been approved by the foreign government, the government of the host country. So that, since that is a prerequisite that the investor bring to us, the foreign government's

Senator Green. Well, the foreign government may have strong prejudices for and against different businesses. Do you let that deter-

Mr. Houston. Well, I think, sir, my point was this: If there were, for example, 2 or 3 prospective investors competing for a particular opportunity in a foreign country-

Senator Green. Well, take oil refineries as an illustration.

Mr. Houston. Yes. sir.

# APPROVAL OF FOREIGN GOVERNMENT IS A PREREQUISITE

First of all, if there were 2 or 3, or any other number, of competing investors all aiming at the same possibility in the foreign country, our first approach would be the one that I have referred to, of looking to see what was the action of the foreign government, which of these prospective investors did the foreign government actually approve and accept. And in almost every case that I can imagine, I believe that that would more or less automatically put the other people, the other competitors, out of the situation.

Senator Green. Then if the foreign government had not recommended it, you would not issue a guaranty; and if the foreign gov-

ernment recommended it, you would. Is that right?

Mr. Houston. The first part of the statement, certainly, is required by the statute, that these proposals be approved by the foreign country concerned.

Now, as to accepting anything which the foreign country might approve, no, sir; that would not necessarily follow. But certainly it is a statutory prerequisite that any investment be approved.

Senator Green. Some foreign government might approve monopolies, and some might approve competition. Would you adopt, in the respective cases, the policy of the government of that country? Mr. Houston. No, sir. I do not wish to make it appear that we are governed by the approvals of the foreign countries, and that the fact that a proposal has been approved by a foreign country is necessarily controlling in the sense that we would thereupon automatically go ahead with the piece of business.

My point, rather, is this: That it is a statutory prerequisite to the issuance of a contract that the particular investment proposals have

the approval of the host country.

Now, as I mentioned, it would not necessarily follow the other way around.

Senator Green. How is that approval shown?

Mr. Houston. The approval is shown in a specific letter written by the competent part of the foreign government that deals—

Senator Green. Is that a department of the Government, legislative enactment of the Government, or decree of the head of the Gov-

ernment, or what?

Mr. Houston. The particular machinery varies from one country to another. I should say the most typical arrangement is that some official in the Ministry of Finance would write a letter to our agency, the gist of the letter being, "We have examined the application of such a company for such an investment, and we wish to inform you that the Government of France or whatever country was concerned approves that investment for the purpose of the guaranty program." Words to that effect.

#### BILATERAL AGREEMENTS

The CHAIRMAN. Then there must be a bilateral arrangement made

between the country and our country?

Mr. Houston. Yes, sir, there must be a bilateral agreement between the United States and any particular country before we are open for business.

The CHAIRMAN. Before you issue any guaranties?

Mr. Houston. Yes, sir.

Senator Green. I am glad you bring that out, because I think it is a very important element in the situation.

Does there have to be a specific agreement for each project, or is it a

general agreement?

Mr. Houston. Thus far, we have operated entirely on the basis of general agreements between the United States and the countries concerned. We have considered the possibility that occasion might arise where the agreement would be negotiated with respect to particular investment or particular group or category of investment, but we have not actually done that in any case.

The CHAIRMAN. We thank you very much.

Is there somebody present to present the informational media guaranties for us?

Mr. Beers?

Mr. Beers. I am Mr. Beers, yes. I have a statement, Senator, that I prepared to read into the record.

The CHAIRMAN. Yes, sir.

STATEMENT OF ROBERT M. BEERS, CHIEF, INFORMATIONAL MEDIA GUARANTY BRANCH, UNITED STATES INFORMATION AGENCY; ACCOMPANIED BY ALEY ALLAN, DEPUTY GENERAL COUNSEL, UNITED STATES INFORMATION AGENCY

Mr. Beers. My name is Robert M. Beers, Chief of the Informational Media Guaranty Branch, United States Information Agency.

The proposed legislation on informational media guaranties has

two main purposes:

(1) To provide a financing mechanism for the informational media guaranty program separate from the financing of the industrial guaranty program——

The CHAIRMAN. Mr. Beers, this is a new program, is it?

Mr. Beers. No, sir, this program began at the same time the industrial program began.

The CHAIRMAN. Go ahead. Pardon me.

Mr. Beers. And (2) To separate completely the accounts and ad-

ministration of the two guaranty programs.

It would also make clear that the informational media guaranty authority which was granted to the Director of the United States Information Agency in the Mutual Security Act of 1954 is continuing authority, and not subject to the lapse date applicable to the industrial guaranty authority.

The informational media guaranty program, which we usually call the IMG program, is an essential part of the overseas information activities administered by the United States Information Agency.

#### FUNCTION OF INFORMATIONAL MEDIA GUARANTY PROGRAM

The chief function of informational media guaranties, or IMG contracts, is to permit sales of American books, magazines, films, recordings, and the like, in areas overseas where a shortage of dollars would

otherwise dry up the market for such materials.

But the original IMG authority was provided as an integral part of the general investment guaranty authority in the Economic Cooperation Act of 1948, and the few amendments to that original authority have been brought before this committee as part of foreign assistance legislation.

Furthermore, although the program has been administered separately from the industrial guaranty program since 1952—first by the State Department and now by USIA—it is still financed and accounted for in common with the industrial guaranty program.

# SEPARATION OF INFORMATIONAL MEDIA AND INDUSTRIAL GUARANTY PROGRAMS

The legislation before you would finally separate the two guaranty programs, in recognition of the fact that they serve basically dif-

ferent purposes.

Industrial guaranties provide for converting into dollars earnings on capital investments, as well as insurance against expropriation. As such they serve the national policy to promote an increase of private investments abroad.

Informational media guaranties, on the other hand, are commitments on the part of the Government to convert foreign currencies obtained by book publishers, film producers, and other exporters,

from sales of informational materials in foreign countries.

The IMG program acts to support our national policy of informing the peoples of other countries about this country and what it stands for. In view of these basically different purposes, it seems desirable to separate the two programs completely.

#### FUNDING OF PROGRAM

The proposal for separately financing the IMG program from now on does not require any new funds. It would merely allocate to the IMG program part of the borrowing authority presently available

by law for the overall guaranty program.

From the allocation of \$28 million, about \$17 million would be available in the form of loans from the Treasury to meet the needs of the IMG program after the end of this fiscal year. The other \$11 million of the allocation is retrospective; it reflects an assumption by USIA of responsibility for amounts made available for the IMG program in previous years.

In addition to the \$17 million, there are some foreign currencies on hand which have accrued from past operations which could add to

the amount available when and if they can be sold for dollars.

The amounts borrowed from the Treasury from time to time would be put into a special account along with the dollar proceeds from selling foreign currencies on hand. Fees received for the issuance

of guaranties would be put in the same account.

The amounts borrowed from the Treasury would, of course, eventually have to be repaid to the Treasury, with interest. Repayment would come primarily from sums in the special account and from foreign currencies then on hand. Any net loss from IMG operations over the years will have to be repaid from appropriations, as may be authorized by the Congress.

It is anticipated that the amount that will be available will meet the needs of the IMG program for 2 to 3 years. Just how long the funds will last will depend, of course, upon the volume of applications received for IMG contracts and upon the rate at which local currencies

received under the program can be reconverted into dollars.

Applications are presently sharply on the increase.

#### OTHER TECHNICAL CHANGES IN PROGRAM

The proposed legislation makes several technical provisions, such as authorizing the repayment of certain amounts to ICA, the collection of minimum fees for issuance of contracts and amendments, and so forth.

The most important of these is authority to make advance payments under IMG contracts. This will permit a kind of short-term credit to exporters of informational materials like that furnished under many

Government contracts for procurement and construction.

This particular authority is needed for areas where the book trade is so undeveloped that American exporters are not able to obtain short-term financing through normal commercial channels. Fre-

quently these are the very areas which the information program wants especially to reach with American books, magazines, films, and the

The informational media guaranty program provides a unique means for getting over to peoples of other countries information about the United States, and about its traditions, values, and policies. It does so at minimum cost to the Government, through normal commercial channels, and with a minimum of Government activity.

The United States Information Agency respectfully urges your committee to give the proposed legislation sympathetic consideration.

The CHAIRMAN. Any questions, Senator Green? Senator Green. Yes.

#### CRITERIA FOR SELECTING MATERIAL

Does our Government, in this connection, exercise censorship? Mr. Beers. Senator, we exercise what I would prefer to call an evaluation of the materials proposed for export under the guaranty, and we have written to all of our-

Senator Green. What is the difference between your term and mine?

Mr. Beers. In the sense, Senator, that we define what can be exported under the guaranty. We have a special covenant which is written into all our guaranty contracts. It is very short. I would like, if I may, to put into the record the provisions of that covenant, which indicate the kind of materials which cannot be shipped.

Senator Green. I think that should be in the record.

Mr. Beers. Very well, sir. The CHAIRMAN. Yes, sir.

#### COVENANT IN GUARANTY CONTRACTS

Mr. Beers. This special covenant provides that:

The investor-

that is the company with whom we have the contract—

will not ship to or sell in the participating country under this contract publications or other materials in the following categories:

(a) Materials advocating or supporting an unlawful purpose.
(b) Materials prepared or distributed in order to convey, disseminate, or rein-

force Communist propaganda.

(c) Materials of salacious or pornographic intent, although the inclusion of questionable language, episodes, or scenes in a work of bona fide literary or artistic intent shall not automatically be construed to bring it within this category.

(d) Materials devoted to the sensational exploitation, as opposed to the factual

reporting, of crime, vice, or similar conditions.

(e) Any other materials of so cheap, shoddy, or sensational a character as to bring discredit upon the United States in the eyes of other nations.

Senator Green. Well, of course, it depends a good deal on how we construe these phrases. I think we could bar almost anything under one or the other of them.

Mr. Beers. Senator, the objective of this program, of course, is to provide a means for the general output of American publishing, the film industry, and other informational producing industries, to sell their materials through commercial channels abroad.

We are very conscious of the need to restrict exports under the guaranty to those materials which are not inconsistent with United States interests.

Senator Green. Is there anything similar to this on the part of

other countries?

Mr. Beers. Senator, I cannot answer that question directly. I believe that the British have some kind of arrangement through one of their overseas agencies, but I am not informed on the detail of that.

Senator Green. I think it is very natural to ask: Is this unique?

Mr. Beers. I would say generally, sir, it is a unique program

peculiar to the United States.

Senator Green. That is all.

#### PRESENT GUARANTIES OUTSTANDING

The CHAIRMAN. What is the volume of your guaranty now? I do not mean in detail.

Mr. Beers. No, sir. We have in force as of the 1st of May, \$8.7

million in guaranty contracts.

The CHAIRMAN. Is that mostly with publishers of books, pamphlets,

or with pictures?

Mr. Beers. I can give you the breakdown, sir, of how generally our guaranties are divided: Approximately 57 percent would be for books; approximately 21 or 21.5 percent for periodicals; 15.5 percent for films; and a miscellaneous group of 6 percent, which includes other informational materials, such as maps and music, and so forth.

#### INCREASE OF APPLICATIONS

The CHAIRMAN. And you say your applications are now increasing? Mr. Beers. They are, sir.

I can give you a brief rundown on that.

The CHAIRMAN. Is that due to the activity of the agency, or to the

virtue of the program, or both?

Mr. Beers. It would perhaps be a combination of both, plus the fact that there are additional countries which are running into currency conversion difficulties, and we are extending or seeking to extend the operation to additional countries.

The CHAIRMAN. I see.

#### OPERATION OF A GUARANTY CONTRACT

Senator Green. Does our Government look into the practicability of the exports to determine whether they will be profit-making and

that books will not be overpriced?

Mr. Beers. Senator, there is a provision in the contract which states that the exporter will make the same sales arrangement with a foreign importer that he would with an American bookseller who is similarly situated. In other words, a book which is priced at \$3 retail in this country would be sold at the same price abroad, with the same discount structure.

The CHAIRMAN. Do you consider the merits of the business that is applying to you for this guaranty? If it is entirely fantastic, for in-

stance, and wholly impracticable, would you guarantee it?

Mr. Beers. Senator, I might answer that question by giving you

an example of how our type of guaranty operates.

We deal with American publishers, motion-picture distributors, and magazine publishers, primarily. Now, Time, Inc., McGraw-Hill Book Co., or Macmillan, any of the leading publishers will come to us and ask for a guaranty contract, we will say, for \$10,000 in a particular country, we will say Pakistan.

Now, when we issue that contract to them, all we are doing is guaranteeing to convert up to \$10,000 worth of Pakistan currency received by them from the sale of their books during the course of a

year.

In that sense, we do not exercise the same type of evaluation over our customers, if you will, that the other program does, because if they are book publishers who are engaged in publishing materials that we would like to see exported abroad, we give them a contract.

I don't know whether that answers your question. Senator.

The CHAIRMAN. Yes.

#### PERSONNEL AND ADMINISTRATIVE EXPENSE OF PROGRAM

Can you give us roughly the number of personnel in your organiza-

tion, working on this program if this is split up and the cost?

Mr. Beers. I can give that to you exactly, Senator. We have two components in this program in the United States Information Agency. One is called the program side; the other is the fiscal side. They are separated.

Our fiscal office makes the payments. On the program side we have

eight people. On the fiscal side we have five.

The total cost for personnel in fiscal year 1955 was \$58,809 for both offices.

The CHAIRMAN. For both offices?

Mr. Beers. For both. That is concerned with the informational media guaranty, not the industrial, sir.

The CHAIRMAN. I understand.

Now, if you separate your program, as you are asking, will that add to your personnel?

Mr. Beers. It will not, Senator. It would not add to our personnel,

because we are operating separately at the moment.

The legislation proposes to separate the fiscal authority of the program, if you will. It has no practical effect on the administrative operation of either program.

The Chairman. I see.

Will you get similar information for the industrial guaranty program and give it to the clerk?

# (The information referred to is as follows:)

# COST OF THE INVESTMENT GUARANTY PROGRAM, ICA

The investment guaranties staff consists of 6 persons; 4 professional and 2 secretarial.

Total annual cost of operating the program is estimated at \$92,000. That figure is derived as follows:

SalariesOverheadTotal, ICAExport-Import Bank	15, 000 80, 000
Total	92, 000

<sup>1</sup> Includes salaries of guaranties staff and allowance for salaries for legal and accounting support.

<sup>2</sup> Estimated time and overhead allocable to Export-Import Bank contract administration activities.

Mr. Beers. Senator, I would like to add just one statement, that the separation of the two programs occurred in 1952 by Executive order of the President, when the IMG program, the informational media guaranty program, was transferred out of the Mutual Security Agency out to the Department of State, and subsequently to the United States Information Agency.

The CHAIRMAN. If there is anything else you wish to add, you may. Mr. Allan. I am Aley Allan. I am the Deputy General Counsel

of the United States Information Agency.

#### USE OF LOCAL CURRENCIES

I just wanted to inform the committee at this time that there will be coming up to the committees in the next few days a letter proposing that one additional sentence be added to this proposed legislation.

The sentence that we will be proposing and the letter are now awaiting final formal clearance in the executive branch, would provide that the local currencies that are obtained under this program will be available for educational, scientific, and cultural purposes that are in the national interest of the United States.

This is to take care of a problem that has arisen as a result of the provisions of some of the bilateral agreements under which this program is conducted, which restrict the use of these local currencies to

those purposes.

There is not now a in law sufficient statutory authorization to spend

those funds for those purposes.

The proposed provision would simply provide that authority, and then there would have, of course, to be regular appropriations to authorize or to appropriate the moneys to be used for that purpose.

I wanted simply to put that on the record at this time.

The CHAIRMAN. Yes, sir. All right.

As soon as that is cleared, you will send it up?

Mr. ALLAN. Yes.

The CHAIRMAN. Thank you, gentlemen. [The information referred to is as follows.]

> DEPARTMENT OF STATE, Washington, D. C., May 18, 1956.

Hon. WALTER F. GEORGE, Chairman, Committee on Foreign Relations, United States Senate.

DEAR SENATOR GEORGE: Section 9 of the mutual security bill now being considered by your committee contains a proposed section relating to informational media guaranties. The executive branch wishes to propose an amendment to that section to provide statutory authority to use local currencies which accrue under the informational media guaranty program, for educational, scientific, and cultural purposes, and for other special purposes of mutual interest to the governments of the United States and the country from which the currencies derive. The proposed amendment is attached. The need for the amendment arises from the facts set out below.

The informational media guaranty (IMG) program operates only in countries which have given their formal consent to it. A number of these countries have accepted the program only upon condition that the local currencies accruing to the credit of the United States under the program will be used for special and limited purposes which will avoid loss of dollar exchange. Generally such restrictions permit the use of the local currencies for educational, scientific, or cultural purposes or for other purposes that may be specially agreed to by the two governments. The United States Government has found it expedient to accept such conditions in countries where, for reasons of policy, it has seemed especially desirable to introduce informational materials from the Untied States.

As a consequence, however, the United States Government has accumulated certain foreign currencies under the IMG program which cannot be fully utilized under existing law. This situation exists in Israel, and in time may arise in Pakistan, Indonesia, and a few other countries. Legislation presently in effect does not authorize the use of United States funds for educational, scientific, and cultural purposes generally, although some activities authorized under the Mutual Security Act and the United States Information and Educational Exchange Act might fall in that general category. In short, the funds accruing in the IMG accounts in certain countries cannot be spent for general United States expenses because of restrictions contained in the bilateral agreements with those countries, and cannot be fully utilized for purposes acceptable to the other countries without broader legislative authority than presently exists.

These blocked accounts offer opportunities to cement friendly relations with the countries concerned through the use of the funds for cultural activities of mutual interest to those countries and the United States. On the negative side the continued existence of these blocked accounts not only diminishes the funds available for the IMG program but creates risks of loss through devaluation, whether by official act or through gradual diminution of market value.

Accordingly, the executive branch would like to propose that currencies accruing to the credit of the United States under the IMG program be made available for educational, scientific, and cultural purposes, and other special purposes mutually acceptable to the United States and the other country concerned. It is understood, of course, that the currencies could only be used for such purposes pursuant to appropriations made in accordance with custom-

ary congressional procedures.

This matter is of immediate and pressing interest because of the situation in Israel. By far the largest accumulations under the informational media guaranty program are in Israel, which was the first country to stipulate that currencies accruing under the IMG program would have to be restricted to educational, scientific, and cultural uses. Some \$4,026,977 worth of Israel pounds had accumulated in the IMG account as of April 30, 1956. Some losses of a minor sort have already been suffered through a diminution of value since the time when these currencies were deposited, and it seems clear that the sooner the sums can be used to the advantage of the United States Government the surer we are to avoid further losses. Moreover, I need not emphasize to you that in the present state of affairs in the Near East the use of these sums in a manner that will promote friendlier relations with the State of Israel could be of substantial benefit to our national interest in that area. Only recently Mr. Bernard Katzen, of New York City, spent several weeks in Israel at the request of the Secretary of State studying this situation. He has reported that the use of the IMG accumulations in accordance with our agreement with the Israel Government would, in his opinion, be of great benefit

to our relations with that country.

The Secretary would be glad to have Mr. Katzen and other officials of the executive branch appear before your committee to testify on this proposal if you wish. The Director of the United States Information Agency joins the Secretary in this request, and I am authorized to state that this proposal is part of the program of the President.

Sincerely yours,

ROBERT C. HILL, Assistant Secretary.

#### ATTACHMENT

Add the following sentence to the proposed subsection (d) of section 1011 of the United States Information and Educational Exchange Act of 1948, as

amended (see p. 20 of H. R. 10082):

"Such currencies shall be available, as may be provided for by the Congress in appropriation acts, for use for educational, scientific, and cultural purposes which are in the national interest of the United States, and for such other purposes of mutual interest as may be agreed to by the governments of the United States and the country from which the currencies derive."

(Whereupon, at 12:50 p. m., the committee adjourned.)

# MUTUAL SECURITY ACT OF 1956

### THURSDAY, MAY 17, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to call, at 10:30 a.m., in the committee room, Capitol Building, Senator Theodore Green (acting chairman) presiding.

Present: Senators Green, Sparkman, Mansfield, Wiley, Smith of

New Jersey, Knowland, Aiken, and Capehart.

Also present: Col. R. H. Shellman, United States Army Joint Staff, Pacific Command; Lt. Col. V. W. Alden, USAF, Joint Staff, Pacific Command; Comdr. R. R. Green, USN, Joint Staff, Pacific Command; Lt. Col. R. C. Geist, USA, Joint Staff, Pacific Command; Lt. Col. R. C. Geist, USA, Joint Staff, Pacific Command; Capt. Berton A. Robbins, Jr., USN, OSD/ISA; Col. Harry Critz, USA, OSD/ISA; E. Perkins McGuire, Deputy Assistant Secretary of Defense; Harry Carter, Special Assistant to the Assistant Secretary of Defense, ISA; Guilford Jameson, Deputy Director, Congressional Relations, ICA.

Senator Green. Admiral Stump, we will be glad to hear from you.

# STATEMENT OF ADM. FELIX B. STUMP, COMMANDER IN CHIEF, THE PACIFIC, DEPARTMENT OF THE NAVY

Admiral STUMP. I think I can save the time of the committee if I might be permitted to read this statement; I can condense it more that way.

Senator Green. Very well; as you wish.

Admiral STUMP. I have already distributed an unclassified statement which can be used. The rest of my remarks are classified, and I will make some remarks off the record, if I may.

Senator Green. If you will indicate that to the stenographer, he

will not take them down.

Admiral STUMP. Yes, sir.

(The unclassified statement of Admiral Stump is as follows:)

STATEMENT OF ADM. FELIX B. STUMP, UNITED STATES NAVY

Mr. Chairman and members of the committee, I appreciate the opportunity

to appear before you.

I am Commander in Chief of the Pacific Command. In my unified command I have the usual Army, Navy, and Air Force component commanders. As Commander in Chief of the United States Pacific Fleet I occupy the additional position as my own subordinate Navy component commander under the unified Pacific Command. With respect to United States mutual defense assistance programs, I am concerned with Taiwan, the Philippines, and our Allied nations of Southeast Asia.

#### COLLECTIVE SECURITY

In discussing these programs and the related legislation which this committee is now considering, it is important to remember that United States assistance for our western Pacific allies is directly related to the security of the free world against further Communist aggression in this critical area. The contribution of southeast Asian countries and of Taiwan to collective defense of the area will continue to be directly proportionate to the amount of mutual defense assistance provided them. In this respect, the critical years are those that lie ahead. Of particular importance, in the immediate future, is the progress of collective defense planning and the further development of allied military effectiveness in the Pacific to implement that planning. A major portion of the United States military contribution to these collective efforts will be support provided through the United States mutual defense assistance programs.

The importance of continued progress in collective defense in the Pacific area is evident when we consider the existing strength of the Communist forces opposing us, both military and psychological, as compared to the modest, al-

though commendable, forces of our allies in the area.

Communist ground forces in Asia facing my command area consist of the Chinese Communist and Viet Minh, numbering about 3 million. These ground forces have available to them support by a relatively young but modern Chinese Communist air force composed of over 2,000 aircraft, with a large percentage of modern jets. Furthermore, the Chinese Communist Navy is rapidly expanding. These forces could be quickly utilized to launch an attack against the offshore islands and southeast Asia, receiving support from the U. S. S. R. with its wealth of modern equipment and experienced military leaders. Finally, scattered throughout anti-Communist southeast Asian countries are less obvious subversive elements, which the Communists are so adept at using, who can carry out operations to weaken the internal security of those presently independent countries.

Although the military capability of our southeast Asian and Nationalist Chinese allies facing this Communist potential is not adequate today to defend indefinitely against even a localized but sustained offensive, we must appreciate the progress that has been made possible by United States mutual defense assist-Since 1950, when our mutual assistance began in the Philippines, Indoance. china, and Thailand, programs have been added for other southeast Asian countries and Taiwan. As a direct result, internal security is a less serious threat than it was formerly in southeast Asia. President Diem's government in Vietnam has been firmly established. Taiwan's defenses have been materially bolstered, and the tactical organization and training of all the armed forces is steadily improving. Today, allied collective defense in southeast Asia is at the critical point where respective national armed forces are ready to conduct advanced training and to increase their ability to conduct collective defense planning and operations.

Much of southeast Asia continues to be inflammable. A peaceful day is rare on the free China border and in some parts of southeast Asia. exchanges of artillery fire and frequent attacks by both sides on naval craft and aircraft in the Taiwan area and current operations by subversives in southeast Asia and in adjacent Malaya cause control of these areas to be a matter of daily concern.

#### UNDERDEVELOPED COUNTRIES

Southest Asia, as well as Taiwan and the Philippines, is characterized by rugged terrain with limited road nets. Some large areas have no roads at all. The countries themselves generally are undeveloped, although they have large resources of some strategic materials and agricultural products. Their methods are outdated and their industrial capability is of a low order. Communications facilities are poor and in many cases nonexistent, and national economies are woefully inadequate. The level of technological and other professional education is low and only a few officials are schooled in the processes of conducting the business of governments. This is an ideal situation for Communist infiltration and disrupting methods as well as for overt offensive operations.

Without United States assistance in the past these countries probably would be Communist today. Without continued assistance they would be in a precarious position in a relatively short time. In repayment for our assistance these countries have the potential, and it appears they would be willing under proper circumstances, to make an important contribution of their own to the defense against any further encroachment by the Communists. Southeast Asia, with its millions of people and its natural resources including tin, rubber, oil, and many hundreds of thousands of tons of excess rice, is of tremendous, even vital, importance to the free world and therefore to the United States.

#### DEFENSE TREATIES

Defense planning under the various bilateral and multilateral treaties is progressing in the western Pacific. United States intentions to assist in the defense of the Philippines and Taiwan are clearly announced in our bilateral treaties with those countries. The United States is also participating in the Southeast Asia Collective Defense Treaty Organization (SEATO), one of whose objectives is maintaining the security of southeast Asia. In addition, the United States is a signatory, with Australia and New Zealand, to the ANZUS Treaty. As Commander in Chief, Pacific Command, I am actively engaged in this treaty planning as both United States military representative for the ANZUS Treaty and as United States military adviser for SEATO.

#### IMPLEMENTING THE PROGRAM IN THE PACIFIC

To plan and implement United States mutual defense assistance programs in the Pacific Command, I have under my military command military assistance advisory groups in Taiwan, Vietnam, Thailand, Cambodia, and the Philippines. I am charged by the Department of Defense with the responsibility for coordinating, under the direction of that Department, the requirements for military assistance as recommended by the advisory groups. I must ensure that these recommended requirements are consistent with strategic plans and other plans and programs of the United States. I should like to emphasize that in these countries of limited means and capabilities, military assistance is designed to develop forces tailored to the specific requirements of the individual countries as well as to requirements for collective defense. I assure you that the types of equipment and training assistance planned for the military forces in these countries are constantly reviewed to ensure development of the maximum military capability possible.

SITUATION IN FORMOSA

Mutual defense assistance programs for Taiwan provide for equipping and training Free China's forces on Taiwan, Penghu (the Pescadores), and the Nationalist-held offshore islands. I feel that the strong determination of the Nationalists, coupled with United States assistance, is largely responsible for slowing down Communist aggression in this sensitive area. When the Nationalists were forced to evacuate the Tachen Islands in early 1955, Communist aggressive intentions were plainly evident. However, since that incident United States assistance has permitted the Nationalists to increase significantly their defense capability. Extensive defenses have been established on the offshore island complexes of Matsu and Kinmen as an essential part of the overall defense of Taiwan and Penghu, and the Nationalists' air defense and logistic support systems have been steadily improved.

#### SITUATION IN VIETNAM

In Vietnam, President Diem, with continued United States support during the past year, has been surprisingly successful. As a matter of fact, progress in stabilization of the Government and elimination of the dissenting or rebellious elements in Vietnam during the past year has been truly remarkable. The formation of the present strong democratic government, supported by the masses of the people of Vietnam and alined with the free nations of the world, could not have been possible without United States assistance. The Vietnamese are developing for the first time their own military capability which already has been largely responsible for what political stability now exists in Vietnam and, in particular, for the recent defeat of the last of the major organized dissident sect forces. However, the democratic government in Vietnam could not long survive in the present situation without continued United States assistance. Future United States assistance is necessary to strengthen further Diem's government and to increase the capability of his armed forces to participate in collective defense.

It is important, also, to point out that we are continuing operations in Vietnam to recover large quantities of excess United States equipment left in Indochina after the cessation of hostilities in 1954.

#### SITUATION IN THAILAND

In Thailand, United States mutual defense assistance programs have resulted in the steady improvement in the effectiveness of the armed forces of that country. The Thailand Government is cooperative and is appreciative of United States assistance. Food is plentiful and there is at least the basis for some economic stability. Mutual assistance programs in Thailand are designed to assist in mutual efforts to develop effective combat units with sufficient logistic support to ensure internal security and to provide limited defense against external attack.

#### SITUATION IN THE PHILIPPINES

In the Philippines the threat to internal security formerly represented by the dissident Huks has been brought under control as a result of antidissident operations under the able leadership of President Magsaysay. United States mutual defense assistance programs are assisting President Magsaysay in the development of a tactically organized Philippine Army, a small coastal navy, and a small air force. Philippine military leaders are participating in collective defense planning and have developed an excellent appreciation of Southeast Asia security requirements. By continued mutual United States-Philippine efforts both Philippine military effectiveness and collective defense planning will steadily improve.

# SITUATION IN CAMBODIA AND LAOS

Cambodia has been most successful in establishing and maintaining her internal security and in equipping and training her small army. Our 1-year-old military assistance program in Cambodia is designed to provide the necessary equipment for her armed forces. Much remains to be done in advanced training and in developing logistic support for these forces which will require continued United States assistance.

Laos, like Vietnam, is on the front line facing deployed Communist forces. Laos needs assistance in order to improve the effectiveness of its small forces which at present are guarding the extensive Laotian borders and continuing operations aginst the Communist-backed Pathet Lao in the northern provinces.

#### SUMMARY

From the foregoing summary briefly depicting the military situation in these sovereign anti-Communist nations, I may have left you with the impression that our mutual defense assistance programs are piecemeal and lack integration. I wish to emphasize that such is not the case. Most of these military forces receiving United States assistance are still in the formative stage and cannot be considered as ready today for extensive combat. Although capable of fighting tomorrow, they must reorganize in some instances, receive additional equipment, and train in the more advanced methods of modern combat. United States assistance is tailored in every instance to meet the specific needs of each country and each program must be analyzed separately in that light. However, at the some time each program follows a pattern that will ensure maximum standardization and integration into the collective defense pattern for the area.

In summary, Communist military forces and less obvious, but certainly effective, covert forces stand ready to move in and fill any vacuum allowed to form in the presently held free territory of Southeast Asia. The free world can stand no further losses in Asia without jeopardizing its position in the western Pacific and specifically in Southeast Asia. To date, United States assistance has helped our Asian allies stem the tide of communism. Future United States mutual security programs must ensure continuance of this help and encouragement to these hard-pressed nations. The program you are now considering contains that minimum help by which these sovereign free countries can develop that additional national strength and stability which is so vital to the collective defense of this part of the free world.

Although this troubled area is considerably removed geographically from continental United States, I am sure, without further explanation on my part, the members of this committee are aware of the direct relationship between collective defense in the western Pacific and the defense of the United States itself.

#### AREA COVERED BY PACIFIC COMMAND

Admiral STUMP. Mr. Chairman and members of the committee, I

appreciate the opportunity to appear before you.

I am commander in chief of the Pacific Command. The area of my command responsibility is bounded on the east by the west coasts of North and South America, with the exception of a small triangle that comes under the Commander in Chief, Caribbean. My area on the north is bounded by the area of responsibility of the commander in chief of the Alaskan Command, and on the northwest by the area of responsibility of the commander in chief, Far East Command, in which is included Korea, Japan, and the Ryukyu Islands. On the west, my area of responsibility starts on the China coast a little north of Shanghai and extends along the Asian coast to the boundary between Burma and east Pakistan, and then on a line to the southwestward to the center of the Indian Ocean. To the south my territory goes clear down to the Antarctic.

Here is CINCLANT's responsibility bordering on mine [indi-

cating].

Senator Green. How far south does that go?

Admiral STUMP. We go all the way down as far as the Antarctic.

Senator GREEN. As far as the Antarctic?

Admiral STUMP. Yes; the entire Pacific Ocean, plus half of the Indian Ocean.

Senator Wiley. You mean that north of that line is not in your

command?

Admiral STUMP. No, sir. This line shows the boundaries of responsibilities of unified commands and there is the boundary of responsibility of the commander in chief, Alaska, right there [indicating]. The lines are not prohibitive, we often have missions that go across the line, and interchange with other commanders.

Now, in my unified command—

Senator SMITH. I didn't hear your description of this. Could you give it again, briefly?

Admiral STUMP. Yes, sir, Senator Smith.

My area of responsibility extends roughly from the coasts of North and South America all the way to the Antarctic, and clear over to the Indian Ocean, with the exception of this area, of General Lemnitzer, commander in chief, Far East, and this area here, which is under commander in chief, Alaska.

In my unified command, I have the usual Army, Navy, and Air Force component commanders. As commander in chief of the United States Pacific Fleet, I occupy the additional position as my own subordinate Navy component commander under the unified Pacific Com-

mand.

[Deleted.]

#### SITUATION IN SOUTHEAST ASIA

Much of Southeast Asia continues to be inflammable and Communist activity in some parts is continuous. A peaceful day is rare on the free China border and in some other parts of Southeast Asia, particularly in northern Laos.

Senator Mansfield. Can we interrupt the Admiral with questions

as he gives his statement?

Senator Green. Which would you prefer, Admiral; to be interrupted at the time the question occurs to the Senator or wait until the end of your statement?

Admiral STUMP. I think I will leave it to the Senators; if they want

to interrupt me, I will be glad to answer.

Senator Green. I think they would prefer to interrupt at the time. Admiral STUMP. That will be quite all right with me, sir.

[Deleted.]

Senator Smith. Are you reading from this statement we have here? Admiral Stump. No, sir. That is my unclassified statement, sir, and it is a condensation and an expurgated edition of what I have got here.

Almost daily exchanges of artillery fire and frequent attacks by both sides on naval craft and aircraft in the Taiwan area and current operations by subversives in Southeast Asia and in adjacent Malaya cause control of these areas to be a matter of daily concern to the free world.

With a preponderance of Communist ground forces strategically deployed, as I have just described, supported by the Chinese Communist Air Force, which is the fourth largest in the world, and supported by the unlimited resources of the Soviet Republic, the Pacific Command, as well as General Lemnitzer's Far East Command, is under constant threat of overt attack and almost continuous widespread subversive action.

#### DIVIDING LINE OF PACIFIC AND FAR EAST COMMANDS

Senator SMITH. Let me ask you: You have a responsibility for the Taiwan operation?

Admiral STUMP. Yes, sir.

Senator Smith. And not General Lemnitzer?

Admiral STUMP. Yes, sir.

Senator Smith. And is Okinawa in there?

Admiral STUMP. My area does not include the Ryukyu Islands, of which Okinawa is a part, but does go on the China coast up to Shanghai. Okinawa is right here [indicating]. I don't have that. However, all my plans are dovetailed with General Lemnitzer's, and his with mine, and we mutually support each other.

Senator Smith. Your main airfield is at Okinawa?

Admiral Stump. That is one of the main airfields but, of course, we have others, but my main power is the 7th Fleet, which I will describe in a few minutes, sir.

Senator Wiley. What is the justification for splitting the command? It seems to me that what is necessary is that all those people work

together under one command.

Admiral Stump. Well, sir, that is a matter under consideration, and constant consideration and reconsideration, by the Joint Chiefs of Staff.

I could talk to you a little on some of the reasons why it continues the way it is now, for the present. [Deleted.]

Senator Smith. Were the limits the same when Admiral Radford was in Honolulu, and MacArthur and Ridgway were in Tokyo?

Admiral STUMP. Yes, sir.

Senator Mansfield. Do I understand that to indicate that the commander in chief, Atlantic, has that line all the way south of India (indicating) ?

Admiral Stump. Yes, sir.

As far as naval things are concerned, the commander in chief, Atlantic, who is also SACLANT, as we call him, the line of responsibility goes clear over to here [indicating]; and the commander in chief, European Forces, comes over to here, this division [indicating]. Senator Mansfield. But we have a 6th Fleet in the Mediterranean.

Do we have any elements in the Persian Gulf?

Admiral STUMP. Yes, sir; very small. We keep one ship all the time in the Persian Gulf, and recently they have sent a division of destroyers through the Suez Canal and down this way [indicating].

Senator Knowland. What is that; some kind of tender that we

Admiral Stump. That particular vessel, yes, sir, has been what we call an APA. I will have to check and see if that is what it is at the moment.

Facing this threat, I have under my control in terms of current deployments primarily United States naval forces.

I have the 7th Fleet. [Deleted.]

I also have 11/3 Marine divisions, and 1 Marine air wing, located in Hawaii, and on the United States west coast.

(Deleted.)

Finally, the 25th Infantry Division is stationed in Hawaii, under the command of my Army component commander.

#### PREVAILING CONDITIONS IN SOUTHEAST ASIAN COUNTRIES

The countries in Southeast Asia, as well as Taiwan and the Philippines, for whose military assistance the Pacific Command is responsible, are characterized by rugged terrain, with limited road nets. Some large areas have no roads at all. The countries themselves generally are undeveloped and weak. They have large resources of some strategic materials and agricultural products, but their methods are primitive and, industrially, they are almost entirely undeveloped. Communication facilities are poor, and in many cases nonexistent, and national economies are woefully inadequate. (Deleted.)

Southeast Asia, with its millions of people and its natural resources, including tin, rubber, oil, and many hundreds of thousands of tons of excess rice, is of tremendous, even vital, importance to the free

world, and therefore to the United States.

# JAPAN AS A MARKET FOR SOUTHEAST ASIAN PRODUCTS

To insure economic development, markets must be found for these

products. One obvious outlet is Japan.

A few years ago Japan was considered to have about half the industrial capacity of Russia. Japan needs southeast Asia's raw materials and needs to import rice to feed her people.

Senator Green. I don't like to interrupt, but what would be the

present estimate of the relationship of industrial capacity.

Admiral Stump. That I do not know. We are hearing a lot lately, sir, about the tremendously increased industrial capacity of Russia, and I do not know the figures. Japan's industrial capacity is below, or much lower than it was before the war.

Senator Green. And Russia has decidedly increased?

Admiral Stump. Decidedly increased; yes, sir.

Senator Mansfield. Admiral, you mentioned that Japan eats this rice. As long as we have the former chairman of the Agriculture Committee here, what is the effect of shipments of rice from this country to Japan? Do they disrupt the market from Thailand, Burma, and elsewhere, which countries ordinarily ship their excess rice to Japan?

Admiral Stump. Well, Senator, I think that is a little out of my

line, if I may say so.

Senator Mansfield. All right.

Admiral STUMP. I think you can get a much better answer else-

Senator Mansfield. I hope to.

Senator Green. Admiral, you might ask the Senator that. Admiral STUMP. I am sure he could give a better answer.

Senator AIKEN. There are no experts in that field, not one that I know of.

Admiral Stump. Japan must be able to sell her manufactured products to pay for her imports. These underdeveloped countries of Southeast Asia, it appears to me, would, when stabilized, furnish a natural outlet for Japan's cheap manufactured exports which are not welcome in the industrialized countries of the world. [Deleted.]

Senator Aiken. Admiral, you touched on something that I would

like to inquire about.

Is there much trade, direct or indirect, between Japan and Red

China now? Do you know the answer to that?

Admiral Stump. No, sir, I cannot give you a very good answer to that.

Senator AIKEN. It seems inevitable that there would be.

Admiral STUMP. I am really just discussing the implications of Japan on my particular area of responsibility, and there are others I would prefer to have speak on other related matters. Mr. Hollister and his group could certainly give you a better answer on that than I could, sir.

Senator Smith. Admiral, do you feel that the development of trade between Japan and the Southeast Asia area would go a long way

toward solving Japan's problem?

Admiral STUMP. I think it would help a lot, because Japan actually, when she started the last war, moved right down in that direction. The first thing she wanted to seize was the resources of Southeast Asia.

Senator Smith. There are undeveloped resources in vast quantity in that area.

Admiral STUMP. I am sure there are, sir.

Senator SMITH. I think I talked to you about this in Honolulu. always thought this was a very important question to bring up.

Admiral STUMP. Yes, sir.

#### MONETARY SYSTEM

Senator SMITH. What about the sterling bloc control in that area? Admiral STUMP. Now you are getting into money, and you know more about that than I do, sir.

Senator SMITH. I don't want to sidetrack you, but is it not true that that area has heretofore been looked upon as being in the sterling

bloc ?

Admiral Stump. Yes, I think it has been more in the sterling bloc than in the dollar bloc, although I think it is getting, with our increased influence there, more to depend on dollars than sterling. Of course, Singapore is in the sterling bloc, Malaya is in the sterling bloc. Frankly, I'd like some expert to tell me about Thailand and Vietnam.

Senator Mansfield. Vietnam has been in the franc bloc, and is getting into the dollars, and Thailand has been for a long time in the

dollar bloc. [Deleted.]

Admiral STUMP. To continue, Japan must be able to sell her manufactured products to pay for her imports. These undeveloped countries in Southeast Asia, it appears to me, would, when stabilized, furnish a natural outlet for Japan's cheap manufactured exports, which are not welcome in the industrialized countries of the world. [Deleted.]

#### MILITARY STRATEGY OF THE AREA

In discussing military aid in further detail, we must relate such aid to the military strategy of the area. Holding what is known as the Pacific offshore island chain, which includes Malaya, the Philippines, Taiwan, Okinawa, and Japan, is considered vital to the final overall defense of the United States, and the free world. The only means by which this strategy can be successfully implemented, without huge costly United States Armed Forces deployed in the Pacific and Far East is for the United States to continue its assistance to the free countries of this area, and to encourage collective defense among these Asian nations, as members of the free world community.

From this standpoint, continued United States assistance is critical to the Pacific area during the coming years. Aid must be continued in such proportions as to enable the indigenous troops in the Pacific command, now receiving United States military aid, to maintain internal security. Should the Communists resume their military aggression, these native forces must also be equipped and trained to retard Communist advances until the provisions of collective defense

can be implemented. [Deleted.]

# COLLECTIVE SECURITY TREATIES

The United States is a signatory with Australia and New Zealand to the ANZUS Treaty, and is also a member of SEATO. The United States is participating at present in SEATO plans aimed at maintaining the security of Southeast Asia, as well as that part of the treaty area outside Southeast Asia.

Senator SMITH. Are the forces of SEATO being built up all the

time?
Admiral Stump. Their efficiency is being increased by the progressive United States aid program. I think in every country we are in a

better military position, as far as the indigenous troops are concerned, than we were a year ago.

We are making progress all the time, sir.

Senator Smith. So, our support of the items in the military aid bill, the pending bill, is very important, in your view, at the present time?

Admiral STUMP. Terrifically important.

Senator SMITH. In that area?

Admiral STUMP. That is what I am trying to say; vitally important, sir, and that area of the world cannot stay free without it.

Senator Smith. I am trying to find all the facts, so that we can help. Admiral Stump. As commander in chief, Pacific Command, I am actively engaged in this treaty planning, as both the United States military representative for the ANZUS Treaty, and as United States

military adviser to SEATO, for the SEATO Treaty.

To plan and implement United States military aid, I have under my military command 5 military assistance advisory groups, 1 each in Taiwan, Vietnam, Thailand, Cambodia, and the Philippines. These groups have a total of 3,400 military personnel functioning as military advisers to the indigenous forces of these countries. [Deleted.]

The size of the 5 military Assistance Advisory Groups varies from the small 55-man group in Cambodia to the 2,600-man group in

Taiwan.

Senator Mansfield. Admiral, may I ask you: Do you still have a brigadier general in command of the MAAG group in Cambodia? Admiral Stump. Yes, sir; General Lodoen. [Deleted.]

### ALLOWANCES FOR LAOTIAN FAMILIES

Senator Mansfield. One point I wanted to raise that came to my

attention was with regard to the family allowances in Laos.

Mr. McGuire. Senator, that is not something within by province. I believe ICA is prepared to answer that question. You raised it, I believe, on the opening day of the session.

Senator Mansfield. Yes.

Mr. McGuire. My understanding of the matter is—and I am speaking of something over which I have no direct control—that the figure includes the subsistence, salary, and dependents' allowance. However, I am speaking a little out of my field. The proper person in ICA will answer that. [See page 138.] Senator Mansfield. I see.

Mr. McGuire. I think, Admiral, you mentioned to me that they did not have in those areas, barracks, and some other things that normally you would have in a military establishment.

Admiral STUMP. That is right.

Senator Mansfield. That is true, and the French did pay the Laotians a little more than they did the Cambodians and the Vietnamese.

Mr. McGuire. I know. There is an ICA team out there now trying to see if they can reduce the costs. ICA has informed us that they are prepared to go into the matter in as much detail as you want.

## COORDINATION OF THE MILITARY AID REQUIREMENTS

Admiral Stump. I am charged by the Department of Defense with the responsibility for coordinating the military aid requirements by

the various advisory groups.

I must insure that the military aid proposed by these groups is consistent with strategic plans and with the guidance provided by the Department of Defense. In this respect, I should like to emphasize that in these countries of limited means and capabilities, United States military aid is designed to develop lightly equipped military units, tailored to operate economically and effectively in rugged terrain, such as is found throughout the area. [Deleted.]

I constantly review the organization of military forces in these countries, and the types of equipment and training assistance we plan for them, to insure development of the maximum military capability possible within the limits of their ability, and within the reasonable

limits of possible United States aid.

I would like now to discuss some of the details of the United States aid programs in each of the 6 countries receiving that aid in the Pacific Command.

#### MILITARY AID PROGRAM FOR FORMOSA

The military aid program for Taiwan is the largest under my supervision. The majority of the total armed forces receiving United States military support in the Pacific Command Area is on Taiwan, Penghu, known as the Pescadores, and the offshore islands. I feel that the strong determination of the Nationalists and speedily applied United States assistance are responsible for slowing down Communist aggression in this sensitive area. [Deleted.]

In addition, Taiwan air defense is now becoming more effective, although there is still much to be done in this specific activity. [De-

leted.

## MILITARY AID TO VIETNAM

In Vietnam, President Diem, with continued United States support during the past year, has made remarkable progress. [Deleted.]

By reason of our aid in Vietnam, Diem is building a significant

By reason of our aid in Vietnam, Diem is building a significant military capability which has been largely responsible for what political stability now exists in South Vietnam, and for the recent successes against the last of the major organized dissident sect forces.

[Deleted.]

United States policy, and particularly United States military assistance in the Pacific Command, is perhaps enjoying its greatest success at the present time in South Vietnam. It remains for continued United States efforts to assist Diem in further development of his armed forces, with adequate logistic support and increased command ability to complete a project which, only a year ago, was given little chance of success in the face of overwhelming economic, political, and military odds.

Senator Smith. Doesn't the fact, Admiral, that we backed the French up to the time of the breakup, cause some prejudice against us

by the Diem crowd?

Admiral STUMP. No, sir; I don't think so.

Senator SMITH. You think they realize that we are sincere in sup-

Admiral Stump. Yes, sir; because they were fighting against communism, too, so we were helping France and Vietnam, both, against the Communists.

Senator SMITH. You think there is good feeling toward us, then, in

that area?

Admiral STUMP. I think there is excellent feeling toward us, as far as the Vietnamese are concerned, and a great deal of it came from what we did toward helping them get 800,000 refugees out of North Vietnam and down south.

It is important also to point out that, in addition to this success in our aid programs in support of the Vietnamese, large quantities of excess United States equipment left in Indochina after the cessation of hostilities in 1954 are continuing to be recovered and redistributed to meet requirements elsewhere.

Senator Wiley. That is our equipment?

Admiral STUMP. That is our equipment that we put in there, sir, separate from the equipment that France brought in.

Senator WILEY. We heard a lot about the loss there. I am glad to

hear that at least in some areas we are getting some of it back.

Admiral STUMP. We don't know, Senator, how well we are going to come out on that. So far, we have gotten out about \$100 million worth which, considering the total in there, is not too much, but it is something, and we are hoping to get more.

Senator Wiley. What is the nature of that equipment?

Admiral Stump. Well, there are vehicles, and some tanks and guns and equipment of that kind, sir. And some ships, airplanes. Deleted.

Senator Sparkman. Was the part that we lost all in North Vietnam?

Admiral Stump. No, sir. Lost——Senator Sparkman. That we haven't recovered yet.

Admiral Stump. All we lost to enemy action was up there, of course; a great deal was lost that way in North Vietnam, and some of it in South Vietnam, too, when they were fighting in South Vietnam, but a great deal of it was deteriorated and worn out.

Senator Sparkman. That is natural wear and tear, I suppose, that

would come with any equipment.

Admiral Stump. Especially in that climate. [Deleted.]

Senator Sparkman. I was thinking more about the equipment that was sent to them and continued to be usable, but we lost it by reason of the overrun.

Senator Mansfield. I think they got it all out that time.

Admiral STUMP. We didn't leave anything in North Vietnam that

could be taken out.

After the Geneva agreement, after they stopped hostilities, we got everything out of North Vietnam and left nothing up there but, of course, in the enemy action before then-

Senator Green. Which do you mean; you took out everything you

could, or took out everything?

Admiral STUMP. We took out everything that was worth taking out, and anything that was left was just junk. We even took out some junk so they wouldn't get the steel out of it.

(Discussion off the record.)

#### IMPROVEMENT OF OPERATIONS

Admiral STUMP. If I might continue toward one thing I think would be of considerable interest to this committee, and that is, with the Defense Department, we are constantly trying to improve our

operations in these countries. [Deleted.]

Now, of course, a part of that improvement has been because we have done a lot of things, like build barracks and so forth, which go into this cost, and a great deal of it is more efficient administration. We now have teams in Vietnam, on which I have representatives, who are trying to put in better accounting methods and so forth, that will help the Vietnamese to spend their money more wisely and waste less. [Deleted.]

In Thailand the United States aid has resulted in steady improvement in the inexperienced armed forces of that county. [Deleted.]

Future military programs in Thailand are designed to develop the presently organized forces into effective combat units with sufficient logistic support to insure its internal security, provide limited defense against external attack, and qualify Thailand as an effective member of SEATO. [Deleted.]

The threat to internal security represented by the dissident Huks has been brought under control. The Philippine constabulary has now taken over, with assistance from the Philippine Army, the major

part of internal security. [Deleted.]

At the same time, increased emphasis in United States aid is being placed upon those projects that will assist President Magsaysay's rural-development program.

Military aid, in conjunction with economic aid, is placing such projects as road improvement and expanded communication systems high

on the priority list.

(Discussion off the record.)

Admiral Stump. Cambodia is one of the countries we are aiding. [Deleted.] I am now satisfied, after thorough study, that continued United States assistance for that country is most important to the retention of Cambodia in the free world. [Deleted.]

# IMPORTANCE OF JAPAN AND PAKISTAN TO PACIFIC AREA

Although Japan, Pakistan, Burma, and Indonesia are not in the Pacific Command, my area of responsibility, I assure you that we in the Pacific have a considerable interest in the political stability and overall security of those adjacent countries.

The development of Japan's self-defense forces and supporting industry in General Lemnitzer's Far East Command is a most important factor that bears on military planning, both in the Far East and the

Pacific Command areas.

As a base of operations, and a strong anchor in our defense in the Western Pacific, Japan is essential to the overall defense structure in this area. It is my opinion that the United States should assist and encourage Japan in every way to build up its armed forces and its heavy industry.

Pakistan, on the other end of the defense arc, is likewise of interest to the Pacific Command. Pakistan has relatively strong ground forces and is making considerable progress, with United States assistance.

It is making a valuable contribution to SEATO. [Deleted.]

## COLLECTIVE SECURITY

The program you are now considering contains that minimum help by which these sovereign free countries can develop that additional national strength and stability which is so vital to the collective de-

fense of this part of the free world.

Although this troubled area is considerably removed geographically from continental United States, I am sure, without further explanation on my part, that the members of this committee are aware of the direct relationship between collective defense in the Western Pacific and the defense of the United States itself.

That concludes my statement, Mr. Chairman.

Senator Green. Thank you very much.

Are there any questions?

## IMPORTANCE OF THE PROGRAM TO THE PACIFIC AREA

Senator Wiley. Yes; just 1 or 2.

Is it your judgment that, applying the law of self-preservation of the United States, it is necessary for us to carry on this same policy with these countries, and that the amounts that are shown here are the minimum amounts?

Admiral Stump. I feel very sure that they are, sir. We have tried, on our part, and the Defense Department on their part, to get them absolutely down to a minimum, and I think that the expenditure of this money is money being spent for the future security of the United States; because, although I think most of you feel that we don't like to be taxed for things of this kind outside of the United States, we cannot stand against the rest of the world if it goes Communist. all the resources of Southeast Asia are thrown into the Communist sphere and developed, it will be a terrific loss and one that we will have to fight hard to overcome later, if we have a struggle between the Communists and the free world. [Deleted.]

## INCREASING POPULATION OF JAPAN CREATES PROBLEM

Senator Wiley. Just one other question: We are trustees of a large number of islands in the Pacific that Japan once occupied. Has there been any consideration given to permitting her to reoccupy these islands? It is the pressure of growing population that is creating one of the greatest problems.

Admiral Stump. Well, Senator, the occupation of those islands

would be just a drop in the bucket.

Senator WILEY. It would?

Admiral STUMP. There are no areas in the Trust Territories of the Pacific large enough to take more than a few thousand of the Japanese.

Senator WILEY. Thank you.

Senator Sparkman. I have a question. Senator Green. Senator Sparkman.

Senator Sparkman. As a matter of fact, practically every island we took over from Japan of any size is inhabited by the Japanese; is it not?

Admiral STUMP. The Ryukyus, yes, but not the trust territories. The Japanese were all removed from the trust territories.

## LOANS TO SOUTHEAST ASIAN COUNTRIES

Senator Green. Senator Capehart.

Senator CAPEHART. What could we do, or might we do from an economic standpoint in respect to loaning those countries money? How important is that to our military objective?

Admiral STUMP. Well, Senator, that is not the question that I

should answer; perhaps it is not military.

Senator CAPEHART. Well, now, if someone doesn't loan them money and make it possible for them to get machine tools and heavy industry—

Admiral STUMP. Now, are you talking about Japan?

Senator CAPEHART. How are they going to increase their standard of living, and get in a position to at least partially defend themselves? Admiral STUMP. Well, sir, you probably now are thinking about Japan.

Senator CAPEHART. No; I am thinking about all of them.

Admiral STUMP. Well, I just don't believe that the countries in Southeast Asia, with the possible exception of the Philippines, could take great loans and use them; they haven't the technical ability.

[Deleted.]

Senator Capehart. I was trying to find out your thoughts on the matter. It is understood there would have to be a sound loan, and we would have to know exactly what they are going to use it for. However, the point is, how helpful would it be? Let's say the kind of loan we are thinking about would have proper direction, and application, how helpful would it be to your military objective, and how helpful would it be in releasing us, in the years to come from this expense?

Admiral STUMP. Well, sir, loans that would pay themselves back, and loans that would increase the economic potential of the countries certainly would help us out militarily, because a lot of our military effort has to go into building the country up, economically, in order

to support their military.

## COMMUNISM

Senator CAPEHART. Well, do you think that the inclination over there on the part of the people in Southeast Asia is to go communistic, stemming from the fact of low standards of living and their illiteracy, or is it a situation where they are just being forced to do so through

sheer force?

Admiral STUMP. I think that through their illiteracy and lower standards of living, they are open to Communist subversion, but actually in many of the countries there they do have enough food, and if they had a strong organized government, they would resist, they could resist communism. But most of those countries have had supports of one kind or another before the last war, economic supports of one kind or another, through trade, and so forth, that they don't have now, so that they can't support a government now without the economic help from the outside.

Senator Green. Senator Mansfield, do you have any questions?

Senator Mansfield. Mr. Chairman, I just want to commend the admiral for a very fine statement.

I have no questions.

Senator CAPEHART. Yes, that was a fine statement, frank and forthright.

Senator Green. I said we were going to adjourn at noon, but if you

have any questions you would like to ask-

Senator Smith. I want to express my appreciation to the admiral for his efforts, and for his fine statement. I didn't hear all of your testimony, but I gather from what you told us in the beginning that you are very much in favor of this bill.

Admiral STUMP. Yes, sir; I certainly am.

Senator Smith. For the entire area. I don't think we could possibly do without it, and not have a greater expansion of communism than has gone on so far.

Admiral Stump. That is correct, sir. Senator Smith. Speaking primarily, I suppose, from the military end?

Admiral STUMP. Yes, sir.

Senator Smith. And not on the economic or technical assistance side of the programs?

Admiral STUMP. I am not talking about the economic part at all, but I realize that that is vital to the military.

Senator Smith. I think they are all very close.

Senator Green. Admiral, we are all very grateful to you for your statement here, which has been very straightforward and illuminating. (Discussion off the record.)

Senator Green. The next meeting of this committee will be at 10 o'clock tomorrow morning, in room 457, Senate Office Building.

Thank you all very much.

(Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 10 a.m., the following morning, Friday, May 18, 1956.)

# **MUTUAL SECURITY ACT OF 1956**

## FRIDAY, MAY 18, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to recess, at 10:05 a.m., in room 457, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Sparkman, and Humphrey.

The CHAIRMAN. We will have to ask the committee to come to order,

please.

We regret that we have not a full committee this morning. There will be some other members of the committee who will report a little later rather than the usual committee hour of 10. Every Senator is working under great pressure because of a number of important pieces of legislation that are now in their last stages in the Senate.

I believe Mr. Robert Nathan, representing the Americans for Demo-

cratic Action, is first on the list this morning.

You may have a seat, Mr. Nathan, and we will be very glad to hear you on the mutual security program. We are very glad to have you. Other Senators will be coming in at a later time.

# STATEMENT OF ROBERT R. NATHAN, CHAIRMAN, NATIONAL EX-ECUTIVE COMMITTEE, AMERICANS FOR DEMOCRATIC ACTION

Mr. NATHAN. Thank you, Mr. Chairman and members of the committee.

I have a statement which I would like to submit, sir, for the record, and just testify extemporaneously, if I might.

The CHAIRMAN. You may do so, and your statement will be printed in the record.

Mr. NATHAN. Thank you, sir.

My name is Robert R. Nathan. I am appearing here today as the chairman of the national executive committee of Americans for Dem-

ocratic Action. We appreciate the opportunity to testify.

Before testifying, may I say that in compliance with the Foreign Agents Registration Act, I wish to advise this committee that I am registered under that act in an advisory capacity to both the Government of Burma and to the Government of Israel.

#### SUPPORT OF ADA FOR ECONOMIC ASSISTANCE

With respect to the foreign aid bill, we in ADA want to express our vigorous support here today for the continued economic assistance to the undeveloped and underdeveloped countries of the world, and to

express our support and sympathy for these measures with as much vigor as we can mobilize and put forward before the committee.

We feel that the apparent shift in the tactics of the Soviet Union from the cold war and the military approach to the area of economic competition provides us with a challenge and also with an opportunity which we will not take advantage of unless we undertake an economic assistance program consistent with the needs and consistent with our capacity to meet those needs.

We are rather disturbed when we hear people express the feeling that the United States must not engage in competition with the Communists on the economic front; that we should not merely follow what

they undertake to do.

Well, it seems to us that in essence what has happened is that the Communists have undertaken to follow the principles and the prac-

tices of the United States.

It is our belief that our economic assistance program of recent years has been effective. It has not been as fully effective as we should have liked, but it has been a useful and potent instrument in stopping the spread of totalitarianism; and, as such, apparently the Communists have come to the conclusion that it is a good technique and a good device, and they would like to enter into this area as well.

And it would seem rather foolish for the United States at this time, when its own procedures and tactics are finding success and someone in opposition is following its tactics, to withdraw from its position.

From that point of view, we feel quite distressed when they say the United States should not undertake economic assistance. Of course, we do not define competition in the economic-assistance field as trying to outbid or outbuy friends or allies for their affection.

We feel that our aid program ought to be adequate to meet the needs and to try to help independent nations stay independent by developing economies which provide hope and opportunity in their prospects for

a better future for their people.

## NEED FOR REAPPRAISAL OF AID PROGRAM

We do believe that there has been much merit and is much merit to the suggestions which have been made concerning a reappraisal of our aid program. We strongly support the expressions of such need. It is our judgment that the present aid program represents in some considerable degree a makeshift adaptation of the Marshall

plan to different requirements.

The Marshall plan was designed principally to help in the rehabilitation of the war-torn countries of Western Europe, and it did a good job in that direction. But aid for the underdeveloped and undeveloped countries is different. It is different in scope, duration, and magnitude. The whole pattern must be quite different, and I think we tended to apply patchwork devices to the Marshall plan to attempt to adapt it to other needs, and we should now undertake a different appraisal.

On that front, however, we believe strongly that in the period of such a reappraisal, it would be foolhardy for us to cut down or slow down the aid program and fail to meet the needs as they are now

apparent.

## MILITARY AND ECONOMIC AID SHOULD BE HANDLED SEPARATELY

There is one major aspect of the program which we would like to emphasize strongly, and that is the relationship between military aid and economic aid.

It is our belief that these two types of assistance ought to be

separated completely and totally and wholly.

The objectives, in a sense, are different. The types of assistance are different. The underlying criteria are different. And we feel that combining the military and economic assistance into 1 program tends to obscure 2 very important different types of assistance that result, perhaps, in more harm than good.

Today, over 80 percent of our aid program represents military assistance and defense-supporting assistance. The result is that many parts of the world look toward the United States or upon the United States as being mostly interested in the military area, and not

in the humanitarian, social, economic advancement.

We believe that if military assistance will be separated, taken out entirely, handled on the basis of military pacts and military considerations, along with political and economic as well, but will be judged on their own criteria, and then the economic assistance will be handled separately and differently and judged on its criteria, that our whole aid program will make a great deal more sense and will be more flexible and more adaptable to the changing international scene.

That is a rather big difference or a big variation from our past practices, and we urge that this committee take this proposal under very serious consideration, because we do believe strongly that it will be helpful to us, to the recipient countries, and to the progress toward peace.

# NEED OF UNDERDEVELOPED COUNTRIES FOR KNOW-HOW AND CAPITAL

May I say a word or two about the needs for our aid, the needs for assistance from the United States.

I think that we here in America have come to look upon aid, at least the public seems to look upon aid, and the editorials and the press and some of our leaders, as charity and as something we are

giving away.

I think that the need for assistance in the world is mainly in the area of investment, and I believe that most of the countries in the world which need assistance would be very happy to borrow the funds, in large measure, if they could borrow them on reasonable terms, long-term and low interest rates.

Some grants are needed for special circumstances and special hardships, but by and large, the need of the underdeveloped countries and undeveloped countries of the world is for know-how and for capital,

know-how and capital.

Know-how, skills, technical capacity, professional abilities, develop very slowly; and if these countries are left to their own resources to develop their engineers and their scientists and their physicians and their lawyers and their accountants and teachers, and the teachers to teach the teachers, and the skilled workmen in the factories, it is going to be a long and slow process; and the process cannot proceed

slowly today, it must be accelerated, and they need technical assistance

from abroad to accelerate their capacity to produce.

In addition, they need capital. Their standard of living is so low it is impossible for them to set aside substantial savings to provide for more capacity for the next year and the following years.

When a country has a per capita income of \$30, \$40, \$50 a year, it is very difficult for that country to set aside 10 percent of its savings

for investment.

A country with the level of income of the United States can easily put aside 15 percent for investment. The result is that the capacity to produce increases more rapidly for the advanced countries than it does for the underdeveloped countries, and what they need is a flow of capital from the outside to accelerate or supplement what they can develop inside.

We here in the United States in some measure developed ourselves on the basis of know-how and capital that came from abroad, knowhow that came with the immigrants and capital that was brought in by the immigrants and loans and investments from abroad, and the

only difference is in degree.

But the development of these undeveloped countries needs the same kind of foreign supplementary help that the United States needed and got in the early stages of its development.

## NEED FOR INCREASING FLOW OF CAPITAL ABROAD

It seems to me that we here in the United States ought to try to support every possible measure, means, and device to increase the flow of capital abroad, and I think we ought to do as much as we can through the ICA, through this measure of foreign aid. We should reinvigorate the Export-Import Bank, continue to give support to the World Bank, try to get this International Finance Corporation of ICA under way as quickly as possible.

I think we make a tragic mistake in not supporting SUNFED, because it is the kind of vehicle through which more loans, capital, could go to the underdeveloped countries with greater self-respect for the underdeveloped countries, because they would be getting it through channels in which they themselves participate, and of which they

are partners.

I believe we should provide more help through the Colombo plan, through all kinds of regional organizations, multilateral organiza-

tions as well as bilateral arrangements.

I further believe we ought to do everything in our power to stimulate private investment, although that is probably going to 'ake time, and it is probably going to be necessary for more Government capital to go abroad to provide the basic needs which are essential for the environment, necessary environment, for private investment.

I think we will need more Government capital for the loans for roads, highways, harbors, irrigation, hydropower developments, and things of that nature, which are prerequisite to large-scale private

investment.

Now one or two final points:

#### CAN THE UNITED STATES AFFORD A FOREIGN AID PROGRAM?

First, let me say a word about the question of whether we here in

the United States can afford a foreign aid assistance program.

If I may speak as an economist, I would say that a question of the ability of the United States to meet foreign aid needs is one without any real basis in reality. It is my personal belief that if capital were available in loans or in grants to meet the total needs of the undeveloped and underdeveloped countries which are reasonably justifiable, that is, the amounts which the undeveloped or underdeveloped countries could efficiently use, I doubt if those requirements would be more than perhaps \$3 billion a year over the next 5-year period.

For a country with a \$400 billion gross product, for a country whose national production can and will increase \$15 to \$20 billion every year at full employment, to feel that it cannot afford to make available in capital an average of \$3 billion a year to those in need in order that they remain peaceful, and whose security and peacefulness and prosperity is in our self-interest, to say we cannot afford that \$3 billion a

year doesn't make sense, frankly.

Therefore, I think the question of whether we can afford it or not ought to be answered very quickly in factual terms of what our capacity really is.

Senator Sparkman. May I ask a question?

Mr. Nathan. Please do, sir.

Senator Sparkman. When you speak of \$3 billion a year, you mean outflow of that much capital from this country; you do not mean grants?

Mr. Nathan. No, sir; loans and grants, public and private.

Senator Sparkman. You mean the amount of money going out of this country?

Mr. Nathan. Yes, sir.

Senator Sparkman. I think that point ought to be kept clear, because so often in speaking of foreign-aid programs, people think only of giving.

Mr. NATHAN. Yes.

Senator Sparkman. And I think perhaps we may have overemphasized the "giving" part to the exclusion of the using of capital which

may be made available through loans.

Mr. Nathan. That is correct, Senator Sparkman. They think in terms of giving, and they think it is all charity; and they do not recognize the fact that most of the assistance that is needed, they would be glad to borrow rather than get in grants, and most of it is for investment, not for just supplementing consumption, not for charity; it is for investment.

I think they probably would need about \$3 billion a year over the next 5 years, and even if it was a little more—but I am not sure that more could be effectively used immediately; but whatever is needed and whatever could be effectively utilized, falls way, way below our

capacity to meet that.

Just two other points. One on this question of long-term authority.

## LONG-TERM COMMITMENTS SUPPORTED

I would like to emphasize—this is again from personal experience, working in many countries throughout the world and over a number of years—that economic development is a long-term process. It is not a 1-year, 6-month or 2-year program or problem. And I believe it is highly appropriate that Congress support the request of the President for authorization for long-term commitments; and I am convinced that Congress, in its wisdom, can develop techniques and devices for providing long-term authorizations without foregoing or abdicating its responsibility to the people on an annual basis to prepare the budget.

## DISPOSITION OF AMERICAN SURPLUSES

Just one final point I would like to add, and that concerns the disposition of American surpluses. We have some \$8 billion worth of surpluses in the United States today. It seems to me rather tragic that we here in the United States should be concerned with our inability to do anything about those surpluses, while at the same time there are, not tens, but I am sure hundreds of millions of people in this world who are in need—in need of increased consumption of foods, and fibers, and textiles.

The problem is that in our disposition of surpluses today, it is my judgment that we probably have done more harm than good, because we have distributed our surpluses, I believe, in such a manner as to hurt competitive suppliers seriously, as to hurt our friends.

I believe that if we will follow three principles in disposing of our surpluses, we can do tremendous good in the world, and at the same

time avoid having any harmful repercussions.

First, we should give away or make available our farm surpluses on the condition that it results in increased consumption. It must result in increases in consumption, and not displacing consumption from other sources.

In other words, we must not displace the markets of friendly countries who are also looking for markets, but we ought to see to it that those countries which receive our surpluses use them to increase con-

sumption over existing levels.

Secondly, I believe that we must dispose of our surpluses on longer term commitments than on a yearly basis. I think it is unrealistic to expect that any country is going to permit consumption to rise one year and maybe have to fall way back the next year. I think it is a good way to invite trouble.

So our surpluses ought to be disposed of on a longer term basis,

perhaps 3 to 5 years.

Then, finally, I believe that in negotiating surplus disposition, we ought to bring into the negotiations competitive suppliers, and when we are selling cotton we ought to bring into the discussions or the negotiations between the United States and the recipient country those other countries who normally provide that recipient country, so they can be sure of their continued market.

I believe if we will follow those three principles, we can dispose of our surpluses effectively for the best interests of peace in the United

States and also for the recipient countries.

Those are just some general comments, and with that I will terminate, because my formal statement will be submitted for the record.

## DESIRABILITY OF FLEXIBILITY IN COUNTRY AID PROGRAMS

The CHAIRMAN. Mr. Nathan, I take it that you are in agreement with the President of Indonesia, who spoke to the joint session of Congress yesterday, that aid should be adjusted, country by country; that

no fixed, inflexible pattern would be applicable in all cases.

Mr. NATHAN. Senator George, I think that is an absolutely necessary requirement. Each country differs in the kind of need, it differs in the stage of economic development, it differs in the kind of economic organization it has. It differs in its foreign exchange problem, it differs in its relations economically to its neighbors.

I think it is absolutely essential that our program be so flexible as to adapt itself to each situation, and also to changing situations over a time. I certainly would agree with that statement, Senator George.

The CHAIRMAN. Senator Sparkman, any further questions?

Senator Sparkman. Would you go further than that and say it should not only be handled country by country, but project by project? Mr. Nathan. Well, Senator Sparkman, I think there are different

kinds of loans for different purposes.

I would say that loans such as those made by the World Bank, where criteria are applied that are almost private banking criteria— I don't want to define the function of the World Bank or exactly how it operates, but I would say they approach private banking criteriathere I think the loans ought to be on a project-by-project basis.

They borrow the money in the money market, and they have to be

very careful.

I think there are other institutions which can loan on a little bit more of a soft basis, or not quite as severe. For instance, the Export-Import Bank, or maybe SUNFED. And there I think, Senator Sparkman, it would be well to consider not only project-by-project loans, but also overall development loans, and let the country have a little flexibility.

In other words, allow that country a certain amount of foreign exchange for development purposes, say you can't use it for consumption or this and that, but it has got to be for development, but allow them to adjust their program within that loan, rather than saying each dollar is identified in advance.

The CHAIRMAN. Thank you very much, Mr. Nathan.

Mr. NATHAN. Thank you, sir.

(Mr. Nathan's prepared statement is as follows:)

STATEMENT OF ROBERT R. NATHAN, CHAIRMAN, NATIONAL EXECUTIVE COMMITTEE, AMERICANS FOR DEMOCRATIC ACTION

Mr. Chairman and members of the committee, my name is Robert R. Nathan. I am appearing here today on behalf of Americans for Democratic Action, as chairman of its executive committee. Our organization appreciates the opportunity to testify before this committee in support of H. R. 10082.

In compliance with the foreign agents Registration Act, I wish to state that I am registered under that act because of the economic services now performed for Burma and Israel by the firm of which I am president, namely,

Robert R. Nathan Associates, Inc.

#### DIFFICULTIES FACING ECONOMIC-ASSISTANCE PROGRAM

Our economic-assistance program seems to be facing more difficulties this year than for many years past. The opposition to the program is a matter of deep concern to ADA, because of the world situation. We believe that the United States must intensify and expand its program for peace and freedom in the world. There has been a deterioration in the position of the free nations. To reverse this trend, the United States must use its tremendous productive capacity in a positive manner to strengthen peace and expand freedom.

## UNITED STATES SHOULD COMPETE WITH COMMUNISTS IN ECONOMIC ARENA

We hear talk of the danger of entering into a competitive race with the Soviet Union in the area of economic assistance. Actually, competition in the economic arena is certainly preferable to competition in the military arena. If there is one field in which the United States can and should seek to compete with the Communists, it is where we clearly possess the advantage, namely, in economic resources. The United States is reported to possess at least 40 percent of the world's industrial productive capacity. Our immediate ability to produce industrial products is far beyond that of any other nation, and greater than that of all the Communist nations combined. Therefore, we should be more than willing to compete in the area in which we are strongest—in the economic field.

## BUSSIA'S ADOPTION OF UNITED STATES TECHNIQUES

In a sense, it is the Russians who are entering into competition with the United States in the matter of economic assistance. We initiated activities in this area many years ago. Although even greater success might have been desired, an objective appraisal of the past decade certainly does justify our efforts and expenditures. Apparently the Russians have come to this conclusion. They seem to have decided that assistance related to economic development provides an effective means for expanding their sphere of influence. It does not make sense for the United States to abdicate merely because Russia has decided to adopt our own techniques.

We should not look upon competition with Russia in the matter of economic assistance as a process of making bigger and better offers of aid to needy countries. Rather, we should proceed with our grants and loans and technical assistance in adequate measure, to the end that material progress will prevail and thereby enhance the prospects for peace and freedom. It is not a matter of outbidding Russia and buying "friendship" at the auction table. But it is a matter of using our huge resources in material and personnel to help others help themselves so that they can remain free. We can do a far better job than the Communists—if we decide to do it.

It has been argued that economic development provides no guaranty against Communist infiltration and expansion. Certainly there are a great many factors other than economic ones which determine whether a nation is or will be democratic or totalitarian. However, economic privation and frustration certainly contribute substantially to the environment within which Communist subversion festers and grows. It is in our own self-interest to do our utmost to help provide the economic environment which will be most resistant to Communist subversion and also to strive in all other possible ways to help preserve freedom and democracy. Just because the economic front is not the only effective means of fighting Communist expansion is no reason to neglect that very important, perhaps most important, front.

## NEED FOR REAPPRAISAL OF ECONOMIC PROGRAMS AND POLICIES

There is much discussion concerning the need for a thorough reappraisal of our entire international economic programs and policies. We share in the demand for such a reappraisal. On the other hand, we believe it would be foolhardy and dangerous to curtail our efforts or fail to expand immediately the flow of American capital and know-how abroad pending such a reevaluation. The program should move ahead full force while a thorough and objective study or series of studies are being undertaken.

In considerable measure, our present assistance program comprises the continuation of the Marshall plan with patchwork and makeshift adjustments. The Marshall plan was undertaken for the specific purpose of helping the countries in western Europe to rehabilitate their economies and to recover as rapidly as

possible from the disastrous consequences of World War II. In large measure, these objectives were accomplished some time ago. As requirements for military assistance in some areas of the world emerged and as the compelling need to help undeveloped and underdeveloped countries became apparent, we merely

made ad hoc adjustments to the Marshall plan concepts.

Military assistance and economic aid to the less-developed countries of the world call for new approaches and new techniques which differ from the Marshall plan. The objectives are different—in one case, the rehabilitation of partly or largely industrialized countries; in the other, initiating and expediting the early stages of economic development. The nature of the needs is different—one largely capital assistance and the other both capital and technicians. The time schedule is different—one, a clearly temporary need for help to warravaged countries to get back on their feet, and the other, a long-term requirement, with needs continuing and growing for many years to come.

#### MILITARY AND ECONOMIC ASSISTANCE SHOULD BE SEPARATED

Our assistance program today suffers from the fact that military and economic assistance are combined under one heading. These two types of aid should be entirely separated. Whether our military assistance is too large or too small is a matter for strategic as well as political consideration. We in ADA have no immediate judgment with respect to this question, but we do feel very strongly that the combination of these two types of assistance under one program, and especially the overwhelming preponderance of military and defense-support assistance over straight economic assistance is most unfortunate and has had adverse repercussions for the United States throughout the world. Our emphasis on military assistance has earned for the United States the unwarranted reputation that the American people are concerned only with war and not with the well-being of people in other countries.

not with the well-being of people in other countries.

A total separation of the two types of assistance would, we believe, go far to help clarify our objectives and also help to emphasize our peaceful objectives. We should give arms in accordance with military pacts. The assistance program should be confined to loans and grants and technical assistance of an economic nature and should be conceived, planned, and executed on political and economic and social criteria and not primarily on military considerations.

## GIVING PROPER EMPHASIS TO ECONOMIC ASSISTANCE

There is certainly no evidence of any tendency on the part of Russia to cease or moderate her efforts to spread communism. Rather, it is increasingly clear that the Russian leaders have concluded that the purposes of Soviet imperialism can be served better through subversion than through military aggression. Under these circumstances, economic assistance becomes relatively more important than military aid. There is no evidence that our foreign policy has been adapted to this needed shift in emphasis. Now and then there have been rumors to the effect that some leaders of the Eisenhower administration have come to this conclusion, but the veto of Secretary Humphrey and others has prevailed, with the result that our international policies have become obsolete and ineffective in the economic area.

It is not beyond reason to conclude that some of our leaders have favored military assistance over economic assistance on the grounds that it is generally more expedient politically to appropriate money for military aid than for eco-

nomic assistance.

Whatever the reasons may be for our past failure to adopt foreign policies appropriate to the changing international scene, we must now awaken quickly to the realities of the challenge we are facing. We must give evidence to the free peoples of the world that we are concerned with their well-being and that we want to help them help themselves. We must show them that we will use some of the abundant resources at our disposal to provide them with the opportunity for a brighter future. This can only be done if we give the proper emphasis to economic assistance. This emphasis is more likely to emerge if we separate—totally and completely—our military and economic aid programs.

## IMPORTANCE OF KNOW-HOW AND CAPITAL

The nature of the economic needs of the less developed countries must be more clearly understood. Economic development depends primarily on know-how and capital. Natural resources are important, but we find that many coun-

tries with an abundance of natural resources have extremely low levels of productivity, income, and living standards. Other countries with limited natural resources have achieved high living standards. Know-how and capital are the

key factors in economic progress.

What the more primitive economies need primarily are ways and means of accelerating the process of developing know-how. They also require more capital than they can possibly generate without recourse to totalitarian oppression. Their levels of output are so low that the pressure is great to consume all that Little can be set aside for the investment needed to expand production. Dictatorships can force a higher rate of savings and investment than can democracies, and that is one main reason why we must help countries which are now free to remain free.

We here in the United States should not be so smug in our prosperity as to forget that mass immigration brought to our shores many persons from abroad with skills and training and experience. Without immigration, these talents emerge quite slowly within a country. Also, we should not forget that our development was helped materially by large capital inflows from abroad, through assets brought by the immigrants and through loans and investments from abroad. We were a debtor nation until World War I. It would be selfish and short-sighted on our part to resort to a type of economic isolationism, by failing to remember our own background and by failing to make available some of our abundant know-how and abundant capital to others in less fortunate circumstances.

Except for special situations, most countries of the world do not need, nor do they want, charity from us. While some of our assistance should continue to take the form of grants, much can be done through long-term, low-interest-rate What we must do above all else is to expand very materially our export of capital. We need also a much enlarged flow of know-how and technical assistance. We need to broaden our vision and experiment with new devices and techniques for rendering assistance. Also, we should expand proven channels for the movement of technical know-how and capital from our shores to other free nations.

The activities of the Export-Import Bank should be expanded in large measure. Our failure to support SUNFED (Special United Nations Fund for Economic Development) is wholly inexcusable and reflects our lack of realism in the area of economic assistance and cooperation. We should not only support the SUNFED proposal, but we should be seeking and exploring other means to make available the capital so desperately needed for accelerated development.

The gap between our standard of living and that of the underdeveloped countries has been growing rather than narrowing. This is not conducive to peaceful and friendly relations. This does not mean to imply that our rate of progress should be slowed down or that we should give away a substantial portion of our own output. Rather, we can and should maintain full employment and increased productivity in this country and at the same time take steps to speed the stepup in output among other free countries. This leads to the question of what we can afford to do.

## PROVIDING CAPITAL TO UNDERDEVELOPED COUNTRIES

This economy of ours is now producing \$400 billion worth of goods and services a year. At full employment, because of a rising labor force and increasing productivity, we can and should lift our production at least 15 or 20 billion dollars each year. No one knows quite how much foreign capital can now be used effectively by the less developed countries, but certainly the amount will not exceed \$3 billion per year within the next 3 or 4 years. Even this would represent a threefold or greater increase over the present levels. It falls well within what we can afford. In fact, the stakes are so high and our capacity so great that we cannot afford to provide less capital from the United States than can be efficiently and productively utilized by the free nations.

Again, we emphasize that every channel, public and private, bilateral and multilateral, should be developed to meet these needs in full measure. We should work directly, through the United Nations agencies and through regional organizations in seeking the best channel or combination of channels for the most effective possible program.

## LONG-TERM COMMITMENTS ENDORSED

President Eisenhower has asked for authority to make long-term commitments in foreign assistance. Economic development is a continuing and lasting process. Plans must extend over a period of years, and implementation is a time-consuming process. We must make commitments beyond a year-to-year basis. Certainly Congress can give authority for longer term commitments without abdicating its continuing responsibility to the American people. We heartly endorse the granting of such authority.

#### DISPOSITION OF AMERICAN SURPLUSES

There is one final point which I wish to emphasize, and that concerns the disposition abroad of American surpluses. No one can argue that our surpluses are not needed by tens, if not hundreds, of millions of people throughout the world whose living standards are abominably low. There is something fundamentally absurd for us to be burdened with huge surpluses while people throughout the world are suffering want and privation. It does not make sense. On the other hand, the disposition of surpluses is highly complicated. There are established market relationships and competitive suppliers who must be protected. We believe that our disposal of surpluses abroad to date has done more harm than good. This stems from efforts to cope with this problem through supersalesmanship rather than through a careful, thoughtful, and painstaking search for solutions of the difficult and complex problems entailed in surplus disposition abroad.

We recommend that three basic principles should govern our disposition of surpluses overseas. First, we must make absolutely certain that these surpluses are used for increased consumption, and not to displace normal purchases from other sources of supply. Second, we must make commitments over a period of many years, because no government will undertake to expand the consumption of essentials or other goods by its citizens if such expansion is only temporary. Third, countries which normally supply the markets to which we will be distributing our surpluses must be brought into the negotiations from the very beginning, so that they can be assured of continued outlets for their products.

#### SUMMARY OF RECOMMENDATIONS

In summary, we urge a reappraisal of our foreign assistance policies and programs; continuation of the present aid program pending such a reappraisal, with immediate expansion in the economic assistance area; complete separation between military and economic assistance; support for SUNFED, as well as the expansion of loans by the Export-Import Bank and the development of other techniques for enlarging the flow of capital abroad; enlargement of our own technical assistance program and increased support for technical assistance through the United Nations; authorization of long-term commitments for economic assistance; and a more constructive and helpful approach in the disposition of our surpluses abroad.

We hope the Congress will meet the challenge of Communist expansion in its newer forms with boldness and farsightedness. To allow the economic isolationists and the "budget balancers at any cost" to prevail would gravely weaken

the prospects for peace and freedom throughout the world.

Thank you for the opportunity to present this statement.

The CHAIRMAN. Dr. Howard Rusk, will you come forward, please? Dr. Rusk, will you proceed? Do you have a prepared statement? Dr. Rusk. No, sir; I do not, but I can file one later, if it is so desired. The CHAIRMAN. That is all right. We will be glad to hear you.

STATEMENT OF DR. HOWARD RUSK, DIRECTOR, INSTITUTE OF PHYSICAL MEDICINE AND REHABILITATION, NEW YORK UNIVERSITY-BELLEVUE MEDICAL CENTER

Dr. Rusk. My name is Howard Rusk. I am a physician, and I am chairman of the Department of Physical Medicine and Rehabilitation at New York University, Bellevue Hospital, in New York City. I am also consultant in rehabilitation to the United Nations, and

I am also consultant in rehabilitation to the United Nations, and president of the International Society for the Welfare of Cripples, and chairman of the board of the American-Korean Foundation.

# IMPORTANCE OF HEALTH AND REHABILITATION PROJECTS IN ATTAINING INTERNATIONAL UNDERSTANDING

I am here this morning as an individual interested in the problems of sick and crippled people, and to say that I feel in these problems we have one of the sharpest tools available in the world today for international understanding.

My first experience in this field was in 1949, when I went on a mission to Poland for the United Nations, to help them organize a program in Poland for their amputees, of which they had 53,000 in

Warsaw alone.

It was a very difficult time, but after the first 24 hours I was taken all about the country, and did help them organize a program; and when I left, the gentleman in the Government in charge of the program said something that I shall never forget. He said, "This has been a good mission. We have learned much to help us with our amputees; but, more than that, we have learned that we have common problems, the same in Poland as in the United States. If we could just work on problems like this together, maybe one day we could learn to understand each other well enough so that we could live together in peace in the world."

I said, "Those words are worth the mission to me. May I have them in writing?" And as the train pulled out of the station, I

was given this letter.

Last year at the international society meeting in Amsterdam, the physician and the interpreter who took me about on this mission were allowed to come to the meeting; and last month the international society had formal application from Poland to become a member of this international group to pool knowledge for severely disabled people throughout the world.

I have seen this same phenomenon happen on missions in Greece and Israel, and South and Latin America, and in Korea, and many other places in the world. I have never been any place where, when you talked about the problems of the man with a broken back or his

arms or legs off, you could not speak a common language.

I feel that in our foreign-aid program we are not using this tool as effectively as it might be used.

## THE KOREAN EXAMPLE

In Korea, I believe that the things that kept the courage of the Korean people to the point where they could fight as they did, with the loss of more people than we lost in World Wars I, II, and Korea put together times two, translated down to a very few simple things:

The first were the things that the GI did, with the orphans and crippled kids and the widows; and second, the fact that two young American Army officers, out of their deep feeling for the people, established the Happy Mountain Orphanage in Pusan in the middle of the war, which turned out finally to become the first children's hospital in Korea, all done out of the goodness of their heart and out of the pockets of themselves and their friends.

Out of the Maryknoll Clinic that the Sisters ran in Pusan, where they saw between 4,000 and 5,000 sick children every day, 2 nuns and 3 Korean doctors, I think it was that, primarily, that made the Koreans

feel toward us as they do.

I believe that in this world, that is so technologically precocious but spiritually adolescent, that if we used this tool we have a means of promoting basic understanding throughout the world that will lead us toward the ultimate goal of peace.

## SUMS FOR HEALTH PROJECTS SHOULD BE INCREASED, NOT REDUCED

I will give you one example. In the first place, I am deeply distressed by the fact that health projects in ICA have been reduced from roughly \$43 million 2 years ago to \$33 million last year, and that—I don't know the figures this year—I understand that there may be even further cuts this year, or certainly not much more.

I believe that twice this sum of money can be used, and used adequately, if we are going to eradicate rather than suppress malaria, if we are going to do something about tuberculosis worldwide that we

are conquering in this country.

I know of no way that we could make more friends and more permanent friends and promote more understanding than in an increase in this program.

## MAKING OUR PROSTHETIC DEVICES AVAILABLE TO THE WORLD

We talk about atomic energy for peace. I would like to use an illustration in the field of rehabilitation. Through the wisdom of the Congress, for the last 10 years there has been a million dollars a year available to the Veterans' Administration and the Armed Forces to do research in artificial limbs. We now have in this country the finest prosthetic devices the world has ever known. They are available to all of our veterans and now are being made available to our citizens.

I feel that they should be made available to the world.

Last year we only brought over 541 technicians in health through the ICA program. In our own institute, through private sources,

we brought more than 50.

If we took these prosthetic devices, if we had a million dollars a year for the next 2 years, this is what we could do: We could bring a hundred technicians over here and train them, who would go back to the far parts of the world to get those on their knees off the ground.

We could set up four mobile clinics, fully equipped, that could go from country to country for a number of weeks of demonstration of how you fabricate artificial limbs, and to bring the amputee in and

evaluate him.

We could provide the component parts for 40,000 amputees to put arms on the armless and legs on the legless, so that they would walk as living examples of how we feel in the United States about dignity.

I don't feel that we should do this program to make friends. I think we should do it to demonstrate to the world the way we feel; and if the world knows how we feel about the individual, then the friendship comes automatically.

My own feeling about military aid is, in the wisdom of Congress, it must be maintained, but it can only be a holding action. We have to have something basic underneath—the understanding—if we are

ultimately going to have peace.

How little things can be so effective, I can tell you in two illustrations.

#### ILLUSTRATIONS OF EFFECTIVE ACTIVITIES

I saw an article in the Medical Journal last month about an obscure hospital in Great Britain that sent six boxes of pathological slides to the medical school in Kabul. They were so excited about these specimens that they had a special committee to meet the airplane to receive the box from the express company.

Two months ago, Alfred Vanderbilt, who is on a mission to the Orient, in Djakarta, for the World Veterans Federation, cabled me and said, "The people in this part of the world have never seen a

modern artificial arm. Would you send one?"

We fabricated it in the size and color of the Indonesian, that would fit an Indonesian, with the special glove that has been developed which is so like skin you can hardly tell the difference, and we sent it out.

They had a Government mission to meet the plane, and opened the box with great ceremony, and Mr. Vanderbilt said it was the most

effective thing that was done at the whole meeting.

This is a program that deals with people, and I believe young physicians; and at the present time in our own institute, we have 4 Thais who are going back the first of September to set up the first rehabilitation program in that part of the world; we have 5 Burmese who are coming through voluntary sources at the request of their Government the first of July; we have 2 Turks, 2 Irish, 1 South African, 2 South Koreans, 2 Indians, and a dozen other assorted physicians from all over the world.

They are not learning just about the problems of disabled people; they are learning about how we feel in the United States, what democracy means to the individual. They are seeing the great industrial medical programs in Detroit. They have been to Washington to see Congress in session. They spent weekends in the country with plain people. And they are going back to their countries as permanent

ambassadors.

One young man that we trained 3 years ago, from Guatemala, came back 2 weeks ago to ask if we would take another doctor and 2 nurses to train. He had come up at his own expense. We had trained him without expense to anybody. He had gone back and found 25 patients in the hospital with broken backs. Quietly he started to train them.

Within less than 9 months, he had 15 back at work. It had never happened in that country before.

The insurance fund of the Government heard about this, saw his

patients, and said, "This makes sense to us."

Last month the President of Guatemala dedicated a new hospital that the insurance fund had built for rehabilitation in that country. He is swamped with work, so he wants more people trained.

I will close by giving you just one illustration, and this is a story of a person:

## THE STORY OF JUANITO YEPEZ

About 18 months ago, a young doctor in the Middle West came to me and said he had just come back from Bolivia on a teaching mission, and there in the mission hospital he had seen a little boy born without arms and legs. He had four little sensitive fingers that came out of his shoulder, and two normal feet that came out of each hip joint, and

this is his picture as he was the day he arrived.

He said, "If this boy had a chance, I think he could be a great person." When he was a year old, his father, in desperation, put him in the trash can and ran. He was fished out by some passers-by, and had been kept these 8 years in this mission, where he rolled like a little ball to get from place to place, because he couldn't walk.

I said that we had no funds to bring him up. I didn't know what

we could do, but send the record.

I think the Lord works in strange ways sometimes, and the day the letter came, the secretary of a distinguished man was in my office, and the letter was on top of the pile, and she saw this picture and asked the story, and I told her about it as I have told it to you.

She said, "He will come." She said, "I have no family. I have saved my money. I will adopt this child while he is in the United

States."

He was flown up here, without speaking a word of English. In 30 days he had a vocabulary of about 500 words; and we built the first pair of crude artificial limbs, in which he stood for the first time.

Well, it has been a year now, and he is a big boy, because we have grown him 2 inches every 2 months, and he has learned to walk. And

this picture was taken yesterday.

Well, the story behind the story is this: that about 2 weeks before he came up, the Vice President of Bolivia was in New York, and I invited him and the ambassador to the UN to the institute for lunch. They knew about Juanito Yepez. Everybody knew about it. said, "When is he coming," and so forth.

And in the middle of the lunch, I said, "You know, if we bring this

boy, it is going to cost you a very large fee."
And they said, "How much?"

And I said, "The fee is this: If we bring this boy up and train him, you have to promise me two things: First, that when he goes back, he will have the finest education that your country affords, because his mother is now dead; and second, if we can demonstrate to you in the most severely disabled child that you could ever see in the world, what can be done, you will establish a national rehabilitation center in Bolivia."

They said, without a second's hesitation, "Doctor, you take the boy;

we'll pay the fee."

So this boy stands for a rehabilitation program in a whole country. This was reported in a national magazine 3 or 4 months after he came up, and about 2 weeks later a letter came from a sea captain, postmarked Tampico, Mexico. He said, "Congratulations on your story of Juanito Yepez. Why did you publish it under medicine? Why didn't you publish it under international news, next to that sum we just allocated to Brazil?"

He said, "We just came from Brazil, and nobody thanked us for the \$75 million; but when we landed in Bolivia this time, something new When we got off the boat and walked along the streets of La Paz, dozens of people came up and tapped us on the shoulder and said. That is a wonderful thing that you people in the United States

are doing for little Juanito Yepez. Thank you."

He said, "This is an experience that in 25 years as captain of a tramp steamer in this part of the world, I have never experienced before, and this little boy has done more for the feeling between this country and the United States than anything else that has happened in the last decade."

Well, that is my story. My hope is that we can take a modest amount of this great foreign aid program and invest it in people and the training of people who are going to help the people back in their own countries.

I think it will bring us the type of understanding and friendship

that is available no other way.

The CHAIRMAN. Thank you very much, Dr. Rusk.

## REHABILITATION PROGRAM IN GEORGIA

Dr. Rusk, we have been very proud of the work that has been done down in my State in this field. There are many things that perhaps should have been occurring in everyone's State, especially in this particular field, where there has been remarkable progress made. Do you happen to be familiar at all with it down in Georgia?

Dr. Rusk. Yes, sir. I think that there is no finer rehabilitation program in the United States. We have seen more than 100 of your Georgia boys with broken backs, and they have come from the mines and from the fields and from the offices, and 90 percent of those indi-

viduals are now trained and back at work.

We have just analyzed 2 years' experience. It has been magnificent. The CHAIRMAN. Thank you very much, Doctor.

Senator Sparkman?

## EXPERIENCE OF DR. RUSK

Senator Sparkman. Doctor, a lot of your experience along this line came out of your work in World War II, did it not?

Dr. Rusk. Yes, sir.

Senator Sparkman. A lot of work was pioneering at that time. was it not?

Dr. Rusk. Yes, sir. I developed and had charge of the rehabilitation service in the Air Force during the war.

Senator Sparkman. What were you doing in November 1944?

Where were you stationed?
Dr. Rusk. In the Air Surgeon's Office in Washington.

Senator Sparkman. I was under the impression that I came in contact with you in a rehabilitation hospital in England at that time.

Dr. Rusk. I was over there on occasion, but we first met when the first legislation came up for the Barden-La Follette Act in 1945, when the program was broadened, and it was the beginning of our dynamic program in the United States.

Senator Sparkman. I know I saw a lot of work being done in the rehabilitation field in hospitals in England during the last stages of the war. And I have been greatly impressed with the tremendous job which has been done since that time, and I think you have given us a very fine presentation here as to what the potential of this program is on the basis of building international friendship. I have enjoyed your statement very much.

Dr. Rusk. Thank you, sir.

#### PUBLICIZING OPPORTUNITIES FOR SERVICE IN FOREIGN FIELD

May I say one other thing, and that is that I hear this can't be done because there is a shortage of people, that they can't hire all the people

I have two boys in college, and both of them are deeply interested in foreign affairs and in medicine. I notice when industry needs people to do specific things in engineering or law, or what have you, they have recruiting teams that go around that indoctrinate students as to

I think if young college men today knew the great opportunity for service in the foreign field, we would have no dearth of applicants to

meet the needs if we doubled our program.

The CHAIRMAN. Thank you very much, Doctor. (Dr. Rusk's prepared statement is as follows:)

FORMAL STATEMENT OF DR. HOWARD A. RUSK BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE

My name is Howard A. Rusk. I am a physician and chairman, department of physical medicine and rehabilitation at New York University-Bellevue Medical Center; director, Institute of Physical Medicine and Rehabilitation, New York University-Bellevue Medical Center; associate editor, The New York Times; consultant in rehabilitation to the United Nations; and president of the International Society for the Welfare of Cripples. I am appearing before you today as a private citizen whose primary interest is the rehabilitation of the disabled.

## REHABILITATION OF DISABLED CHILDREN AND ADULTS—AN EFFECTIVE INSTRUMENT FOR MAKING FRIENDS

It is my belief that rehabilitation of disabled children and adults is one of the sharpest tools and most effective instruments which we in the United States have for making friends—a tool which can penetrate any Iron or Bamboo Curtain to reach the minds and the hearts of men. It is natural for all of us to take improved agriculture, industry and utilities for granted but men often regard these developments as somewhat remote from their immediate problems. Rehabilitation, however, makes a personal and significant impact not only upon the disabled person himself and his family but on those with whom he comes in This as well as all international activities in the field of health are one aspect of our foreign assistance program which meets all yardsticks of economic soundness, simple humanitarianism and political expediency.

## HEALTH IS A COMMON NEED

In his report to the Congress on our mutual security program covering July-December 1955, John Hollister, director of the International Cooperation Administration, wrote: "The people of the United States recognize the valueeconomic, social, and moral-of health and the fact that health is a common We are also coming to recognize the vital relationship of health programs to any hopes we may have of helping to create conditions of economic progress, political stability, and democratic social development in the many areas of the world outside the United States, where our future national security is deeply involved."

## ECONOMIC ASPECTS OF HEALTH ACTIVITIES

Mr. Hollister then cited estimates from competent authorities that until recently the economic loss from malaria alone in India was \$224 million a year, from bilharziasis in Egypt \$57 million a year, from malaria and tuberculosis in the Philippines \$660 million a year. Also, that we in the United States pay a hidden 5 percent additional cost for our imports from malarious countries because of disease-affection production.

It is, therefore, surprising that our contribution to bilateral health programs was reduced from \$43 million in the 1955 fiscal year to \$33,767,000 in fiscal year 1956, and that of this amount less than \$50,000 was spent on all types of rehabili-

tation services throughout the world.

From the economic aspects alone, it would seem logical that our investment in international health would be increased rather than decreased. Over and beyond the economic implications, there are great social, moral, and political values in our support of international health activities.

#### INTEREST IN REHABILITATION

These values are well illustrated by international activities in the field of rehabilitation. In this country and in the other developed parts of the world we have seen a remarkable growth of interest in rehabilitation in the last decade. This interest has not been prompted by humanitarian motives alone. It has resulted from the growing incidence of physical disability resulting from prolongation of the life span, increased public assistance costs because of disability, and our need for manpower in our expanding economy.

But what lies behind the interest of Indonesia, Korea, the Philippines, Mexico, India, Burma, and Thailand in the provision of rehabilitation services for their handicapped? It is not the need for manpower, for these nations have far more manpower than they can profitably utilize in their present stage of industrial development. It is not to reduce public assistance costs, for few of these nations have any social schemes whereby the disabled become a responsibility of the state. It is not to reduce demands for medical, hospitalization and social services, for the chronically ill and disabled in most of these nations are wards of their families rather than of the state.

The real reason is that many of these nations, particularly those of the Africa-Asia area, have, after years of colonization, recently achieved the long-sought dream of political independence. Now they are desperately looking for ways of proving to the world, and more importantly to themselves, that they have the political and social maturity to justify their political independence.

Long before the Government became concerned with international health projects, the Rockefeller Foundation, W. B. Kellogg Foundation, China Medical Board, and other private groups had years of experience in the administration of such programs. As a result, we have more know-how in the conduct of international health projects than in some other forms of technical assistance and are able to administer such projects more effectively.

#### HEALTH PROJECTS ARE COOPERATIVE ENDEAVORS

Health projects are welcomed by the nations in which they are undertaken, for such projects are initiated only at the request of host countries. They are cooperative projects involving both joint planning and administration.

Most countries furnish a part, frequently the major part, of the funds for such projects. The \$6 million contributed in 1955 to joint health projects in Latin America by the United States was expanded by \$19 million.

#### COST OF POINT 4 PROJECTS

Since our Federal technical cooperation health programs, known popularly as point 4 projects, began more than 13 years ago, they have cost our citizens less than a penny a month a person.

#### BUSSIAN CHALLENGE IN HEALTH FIELD

It is reported that last year Russia graduated 27,000 physicians from their medical schools and 20,000 the previous year. At the present time we are graduating slightly more than 7,000 in the United States per year. It is granted that the level of education of these physicians is far below that of our physicians but even so the health services they are providing to the country are so superior to those ever before available to the people, to them it is considered a miracle.

It has also been reported that at the present time there are more doctors than can be readily absorbed in the health services of Russia and the physicians are being used for the kind of job that we would ordinarily assign to nurses and technicians. If the production continues and the excess increases it is rather obvious what the physicians will do. They will carry the skills they have learned along with the concepts of communism to the backward parts of the world. We must meet this challenge and we can for our physicians are better trained. By using total professional personnel, therapists, sanitary engineers, public health administrators, and educators we can do a better job. But time is running out.

## SHARING OUR ADVANCES IN ARTIFICIAL LIMBS WITH THE WORLD

Here is one example of what could be done. The Veterans' Administration has, since 1946, conducted an extensive artificial-limb research program which is carried out by nonprofit contracts with universities. The Army and Navy cooperate by supporting prosthetic research laboratories within their medical services. Work in the universities and Armed Services has been coordinated by the Prosthetics Research Board (formerly the Advisory Committee on Artificial Limbs) of the National Academy of Sciences—National Research Council under a contract between the Veterans' Administration and the Academy.

The need for a research program in artificial limbs became apparent early in 1945 when, at the request of the Surgeon General of the Army, the National Research Council brought together a group of scientists, engineers, surgeons, and prosthetists for the purpose of establishing standards for procurement of prostheses. At this meeting it was soon learned that the development of artificial limbs had proceeded through the years without the benefit of a scientific approach, whereupon it was recommended that the Government support a research program in this field.

As the result of this program our own disabled veterans have prosthetic de-

vices far superior to those found anywhere else in the world.

Just as we are interested in sharing the technical advances in nuclear energy for peaceful purposes with the rest of the world, we could make a significant contribution to the effective understanding of American ideals of democracy and the value we place on human worth and dignity, if through an appropriation of 1 or 2 million dollars a year we could share our advances in artificial limbs with the world. Through demonstration centers, consultations, mobile clinics, and the training of foreign personnel in the United States, a magnificent program could be established. With the sum of \$1 million a year for 2 years both the administrative and professional overhead cost of such a project could be met; highly qualified American consultants could visit all parts of the world and survey what is available and what is needed; 4 completely equipped mobile prosthetic shops, each staffed by a qualified American prosthetic technician and physical therapist, could be sent to Southeast Asia, the Near East, North Africa and South America to spend 4 to 8 weeks in a given community rendering direct patient services in fitting prosthetics and training wearers in their use; permanent demonstration prosthetic shops and training centers could be established in key parts of the world; and the components to provide modern artificial limbs could be made available to over 40,900 amputees; over 100 trainees could be brought to the United States for training in prosthetics; and all of the available technical literature and visual aids in prosthetics here in the United States could be translated and published in various languages for international distribution.

These prosthetic trainees would then join the 400 health workers receiving advanced training in the United States under the auspices of the International Cooperation Administration. They and hundreds of others trained under the auspices of private foundations, their own Governments and their own resources, are permanent ambassadors of our democratic ideals. Such persons make particularly effective proponents for democracy because as professional people they work intimately with their handicapped patients and have their confidence and trust.

#### NEED FOR EASILY UNDERSTOOD SHORT-RANGE PROJECTS

Somewhere within the spectrum ranging from direct relief to long-range economic projects, there is a need for significant, tangible short-range projects that can be seen and easily understood. The Russians produced such a project when they paved the main street of Kabul in Afghanistan. Our foreign aid projects there have been of economic importance, but their impact on the daily lives of the people will not be felt for many years. In contrast, several times each day the residents of Kabul have reason to be grateful to Russia.

## THE CASE OF JUANITO YEPEZ

This is the kind of an imaginative, constructive project which can be easily seen and understood. There are many hundreds and thousands of disabled persons throughout the world each of whom could also become a living, dynamic example of American democracy. To illustrate their potential contributions, I should like to tell you the story of a little Bolivian boy, age 10. He was born

without arms and legs with four little, sensitive fingers coming out of each shoulder and two normal feet coming from each hip joint but with no bony connection. When he was a year old, he was abandoned by his father, who then deserted the family and has not been heard of since. The boy spent the next 8 years of his life in an American mission in La Paz, where he had love and kindness but could not walk. To get from one place to another, he rolled like a little ball. He was seen there by a young physician from the United States who called me and said he had met this little boy, who was exceedingly bright and who, if he had a chance, he felt, could be a great force in the world. Pictures and case reports were sent and by coincidence seen by the secretary of one of our distinguished citizens. She made possible his trip to the United States.

Two weeks before he arrived, I had the Vice President of Bolivia and the Bolivian ambassador to the United Nations for luncheon. They knew all about Juanito and were excited about his coming. In the middle of the meal, I said to them, "You know, if we bring Juan here it is going to cost you a very large

fee."

In consternation, they said, "How much?" I said, "The fee is this. First, that when he returns, you must promise him the best education your country affords, and second, if we can demonstrate in the most severely disabled child you will ever see what can be done, you will establish a national rehabilitation program in Bolivia."

Without hesitation, the vice president said, "You take the boy; we pay the fee."

When he arrived, he spoke no English. Within a month, he had a vocabulary of more than 300 words. Special prostheses were designed and he now is walking. He has "grown" more than twice his height. He is doing well in school and one day soon will be ready to go back and take his place in his own country.

Several months after he was in the United States, the story was published in a national magazine. A few weeks later, a letter came to the editors which

read as follows:

"Congratulations on a brilliant piece of reporting. Am referring to your (February 21) on Juanito Yepez, the congenital quadruple amputee from Bolivia. \* \* \* For those of us who are in and out of Central and South America we found your article on Juanito gained us more friends (and respect) than all the millions our Government is pouring into these countries. We noted no sudden pro-United States of America feeling in Brazil as a result of the \$75 million donation (given Brazil by the United States), but we were pleasantly surprised with the many compliments for what the United States of America is doing for Juanito. I do not know what your circulation is in Latin America but can tell you the peons in the backwoods knew all about Juanito within 24 hours after the issue was on the streets \* \* \*."

E. E. BUTLER, Master.

S/T ADRIAS, Tampico, Mexico.

What we need in the United States are friends like Juanito Yepez all over the world, with the recognition that in the United States we believe in the dignity of the individual and because of that belief want to share the things that we have learned in our country. We are not doing this to make friends—we are doing this to give service. If the service and the spirit are there, then we can't help but have their friendship.

The CHAIRMAN. Next is Mr. James Cromwell.

Mr. Cromwell, have you a prepared statement?
Mr. Cromwell. Yes, Mr. Chairman.
The Chairman. Do you wish to put it in the record?
Mr. Cromwell. I should like to read it into the record, if I may. It is a very short statement, and it has some questions in it that you may have to give me a decision on.

The CHAIRMAN. You may proceed, Mr. Cromwell.

## STATEMENT OF JAMES H. R. CROMWELL, WASHINGTON, D. C.

Mr. Cromwell. I am James H. R. Cromwell, and I am presently residing at 2622 31st Street NW., Washington 8, D. C. I am vice president of Engleman & Co., Inc., an electronics-aeronautical consulting organization, and I am the associate director of Robert I. Sarbacher Associates, a scientific organization specializing in nuclear physics. However, I am appearing here solely as an interested citizen, and I do not claim to represent anyone's opinions or recommendation other than my own.

I should like to state that since 1940—which was the last year I was employed by the United States Government—my perspective and my opinions concerning our foreign policies have become ma-

terially altered.

These alterations have been occasioned chiefly by two factors: First, the impact of the nuclear and electronic sciences upon our military and economic posture; and second, the definite findings of Senator Malone concerning the abundance of strategic and critical raw materials within the Western Hemisphere.

## PROPOSALS OF THE COMMITTEE OF ENDORSERS

My present and general opinions and ideas concerning our foreign policies are well expressed by the 10 proposals published in the New York Times and in several other newspapers, on February 28, 1955, by a group called the Committee of Endorsers, of which I am a member.

I assume you and the Senator are familiar with the proposals, and I have two copies here which I would like to submit to you. Would you care to see them, sir?

The CHAIRMAN. Yes.

Mr. Cromwell. I am trying, Senator, to conserve your time to the best of my ability, and don't want to include in my statement or the record of your hearings, any verbiage that is not essential. I leave it to your decision whether or not these 10 definite proposals should be included in the record. They can either be included in the record or not be, in accordance with your decision.

The CHAIRMAN. Very well. The recommendations will be included

in the record.

(The recommendations referred to, which were inserted for inclusion in the record by a prior witness, appear on pages 355-356 of the hearings.)

Mr. Cromwell. Just the 10 proposals is all I had in mind, Senator.

The CHAIRMAN. Yes.

#### A NEW FOREIGN POLICY FOR THE UNITED STATES

Mr. Cromwell. I sent to each member of the committee a copy of an address that I delivered in Nashville, Tenn., and Chattanooga, and some other places in the South, called A New Foreign Policy for the United States. I delivered those in the summer of 1954 in a number of southern cities, although not in Birmingham, Senator Sparkman.

I am going to present, Senator, only 2 out of the 7 proposals contained in that address. I have given you the entire address only for the sake of continuity. The forepart of the address, which does not concern us today, explains the reasons for the change in my perspective on foreign policy that has occurred between 1942, when I had the honor of being the Envoy to Canada of the United States, and

And again, Senator, I leave it to your decision whether you wish to have this entire address entered into the record, or only the two sec-

tions which are applicable to my appearance here today.

And I would like to have you also decide, if you would, sir, whether you wish me to read as part of my oral statement, the two pertinent sections which you have before you, which are marked in red.

They begin, as shown on the papers in your hand, at the bottom of page 11 and continue to the conclusion of the address on page 15. It is that material, Senator, that I am here to try to familiarize you

The CHARMAN. Suppose you mark those.

Mr. Cromwell. Can you follow it all right, Senator?
The Chairman. Yes, sir.
Mr. Cromwell. Do you wish to include that, or exclude it from being read?

The CHARMAN. Do you wish to read it?

Mr. Cromwell. No, sir; not if you don't wish me to. I want to conserve the time of the committee.

The CHAIRMAN. We will enter it in the record.

Mr. Cromwell. Very good, sir. The Chairman. It is marked on pages 11, 12—

Mr. Cromwell. It goes through to page 15.
The Chairman. We will be glad to have that in the record.

Mr. Cromwell. Thank you, sir. The Chairman. Yes, sir.

(The excerpts referred to are as follows:)

#### PRIVATE ENTERPRISE PLAN

Now, let me give you one more new idea before I complete this exposition of a new foreign policy for the United States. I refer to the Private Enterprise Plan, published last March in the Congressional Record. This plan proposes the setting up of an American Allies Reconstruction Finance Corporation adequately financed by congressional appropriations. Branches of the organization would be operated in the lands, and under the laws of those of our allies who would welcome such a lending organization, and be entitled to it by reason of their proven loyalty and devotion to the cause of world freedom. American supervision and advice concerning the loans granted would assure sound and profitable operations.

In this respect, the outstanding feature of the Private Enterprise Plan would be to induce leading American corporations to sponsor the construction and operation of counterpart factories in those countries that qualify for the establishment of branch Reconstruction Finance Corporations. The inducement consists of a 25-percent permanent equity ownership in the new allied corporations, coupled with the assurance that the sponsoring companies need not risk a penny of their stockholder's money.

The objective of the plan is to establish, within the realms of our stanchest allies, a series of industrial and strategic Gibraltars wherein the application of American know-how and American capital would rapidly assure far higher standards of living, and should develop a social and political philosophy founded upon private enterprise, freedom and democracy. Thus the stanch allies would become "show cases" for all the world to see how superior to the slavery and terror of communism is the unfettered functioning of private enterprise.

The eligible nations I have immediately in mind would be the Republic of Korea, Nationalist China, the Philippines, Pakistan, Turkey, Greece, Spain, and several of our South American neighbors. All other foreign dollar expenditures should be terminated at the earliest possible moment.

This is no give-away program; its slogan is "We lend as we spend" and its doctrine is "For the laborer is worthy of his hire" (St. Luke 10: 7). Inauguration of the new private enterprise plan would not only concentrate greatly reduced American foreign expenditures upon definite and limited objectives but will liquidate the further failures of an attempt to buy peace, based upon the operation of a worldwide poorhouse supported by far-flung and indiscriminate gifts of American dollars. In pursuing that false will-o'-the-wisp we have, since the war, gratuitously sown all over the globe a total of over \$60 billion, and we have reaped a harvest of little but contempt and ill-will.

## SYNOPSIS OF ADVANTAGES UNDER THE PRIVATE ENTERPRISE PLAN

Enumeration of the advantages to the United States that are inherent in the private enterprise plan:

1. In this program the money we spend will be the money we lend, and the sums

so spent will eventually return in kind, both spiritually and financially.

2. We will create positive bastions of potential military might in strategic areas where there is now military weakness.

3. We will substitute the sound strategic principles of economic and military concentration for our present unsound and anticapitalistic policy of waste and dispersion.

4. We will open the doors of economic opportunity and higher standards of living to our faithful allies, and simultaneously deal a mortal blow to world communism.

5. We will forge on the anvil of sound commercial cooperation those enduring friendships that can only be founded upon mutual trust, profitable trade, and proven performance.

6. We will liquidate the further failures of a foreign policy based upon the operation of an international poorhouse supported by American tax-dollar gifts.

7. We will demonstrate the superior principles, values, and soundness of the American system of private property, private enterprise, and personal freedoms, as compared to Communist regimentation, slavery, and terror.

## AN AMERICAN LIBERTY LEGION

The creation of an American Liberty Legion was the subject of the following letter that I wrote to President Truman on March 1, 1951, and which has heretofore never been made public. Here is the letter:

"Dear Mr. President: The purpose of this confidential letter is to obtain your support of a project to organize a counterinfiltration and subversive corps to operate chiefly behind the Iron Curtain. Inasmuch as the expansion of Communist power over the past 5 years has taken place without the firing of a shot by the great Red Army, the success of the Politburo must be due to the meticulously organized and directed work of its elite subversive corps, the Comintern.

"Your courage in halting Communist aggression in Korea last June finally awakened our country to the "Red Sword of Damocles" hanging over the head of western civilization and we are now planning to spend tens of millions of dollars for years to come in the effort to deter further aggression. Yet, apparently, the best we can hope for is decades of this appalling waste of our natural and human resources, accompanied by the constant psychosis of the Red sword.

"Since preventive war is impossible for democracy, must we stand condemned to bear these terrible burdens ad infinitum? The answer is "No." The weapon which will permit us to seize the initiative from the Politburo, and can ultimately encompass the destruction of Russian militarism, lies ready to our hands.

"It is the Politburo's own major weapon and the key to its success, the planned and disciplined subversion, conducted within the frontiers of a friendly nation, which rang down the Iron Curtain upon democratized and western-oriented Czechoslovakia, without the presence of a single Red soldier. But Russian militarism, masquerading under the cloak of communism, is infinitely more vulnerable to this weapon than democracy—for the more it expands the longer time is given to illuminate the false promises and to highlight the stark fraud of the Red terror,

the more susceptible it becomes to fatal penetration by its own sharp spear-

head—subversion.

"Since I visited Russia in 1937 the printed record proves that my opinions and predictions with respect to communism and totalitarianism have been correct. I say this not to boast but only to lend weight to the prediction that within 3 years after the implementation of an American counterinfiltration corps, Russia's satellites can be so undermined as to prohibit further aggression and that within 10 years' time organized revolution within Russia herself may well wipe the threat of Communist militarism off the face of the earth.

"Mr. President, there is only one method I know of by which we can promptly and properly implement an American counterinfiltration corps without, as a democracy, committing an overt act. That method is by organizing a foreign legion upon the facade of which appropriations can be hung for an intelligence corps which would constitute and, in fact be, the proposed counterinfiltration If this letter arouses your interest I have enclosed a leaflet, which is presently being distributed to selected members of the Senate and House, de-

scribing such a foreign legion and its objective.

"Virtually without exception everyone with whom I have discussed this project agrees enthusiastically with its necessity, yet it is a strange phenomenon of our democracy that because the project is new and bold, no person or department will assume responsibility for it. It is not within the province of the Department of Defense, a military organization, nor the Department of State, a diplomatic organization, nor the Central Intelligence Agency, a fact-finding organization.

"Clearly, therefore, the breath of life can be blown into this vital project only through executive and legislative action and it is for this reason that I have taken the liberty of petitioning your support through the interest and good offices of our mutual friend, Harley Kilgore.

"Respectfully yours,

"JAMES H. R. CROMWELL."

I never received any response, acknowledgment or reaction to that letter. And why not? The answer is still the same—appeasement Yet, this combination of an alien military task force with its G-2 or counterinfiltration corps is the only instrument I know of by which we can win the "not-so-cold-war" and with it, peace in our time.

The road of appeasement leads but to the grave of democracy, and of freedom, and of our American way of life. We must turn away from the narrow road of weakness and fear and travel the broad highway of boldness and strength, where

this mighty Nation of ours belongs.

## IMPLEMENTING PROPOSALS OF "COMMITTEE OF ENDORSERS"

Mr. Cromwell. My purpose today in appearing before the committee is to familiarize you with the definite means and methods by which I suggest that proposals No. 1 and No. 8 of the committee of en-

dorsers could be or might be effectively implemented.

I have not any idea whether you and Senator Sparkman are interested in pursuing these two proposals any further than to read the bare synopses contained in my Nashville address. You have already ruled,

Senator, that that is to be entered into the record.

The CHAIRMAN. Yes, sir.

## "PRIVATE ENTERPRISE PLAN"

Mr. Cromwell. If you are not further interested, the synopses would suffice; but if you are interested, I have with me a full and complete exposition of the so-called private-enterprise plan which was entered into the Congressional Record under the auspices of the late Congressman Shafer of Michigan, the late Senator Maybank of South Carolina, Senator Mundt of South Dakota, and Congressman Curtis of Missouri.

Unfortunately, my supply of these documents is severely limited, because they were inadvertently destroyed in moving offices, and it would therefore be necessary to have them entered in the record of these hearings in order to obtain a sufficient quantity.

That, again, is for your decision, Senator. I have these documents here, if you would care to look at them. They are rather voluminous.

They are all excerpts taken out of the Congressional Record.

. The CHAIRMAN. They will be available to us in the Record, and the committee would not want to build up a record that the members of the committee could not very well read before we would be called on to handle the work of writing up this bill. You might identify them, and we will be very glad to make them available when we get to the consideration of this matter.

Mr. Cromwell. I just display these to you, Senator. You can see the form they are in. They are in the form of leaflets which were printed out of the Congressional Record and, as you say, they are still available there under the dates on the documents, and I can give your secretary those dates so that they would be available for recourse by the members of the committee, should anybody wish to study them.

The CHAIRMAN. I believe that would be the thing to do.

Senator Sparkman. Mr. Chairman, let me suggest that when he supplies those insertions, they be put in at this point in our record, for easy reference.

Mr. Cromwell. Yes, sir.

Senator Sparkman. Please supply the dates of the insertions.

Mr. Cromwell. I understand what you want, so the Senators could refer to them if they wish to do so.

The CHARMAN. You give them to the clerk. (The information referred to is as follows:)

Hon. Burnet R. Maybank, United States Senate. Rehabilitation in Korea. Congressional Record, Tuesday, July 22, 1954.

Hon. Karl E. Mundt, United States Senate. Korean Rehabilitation. Congres-

sional Record, Monday, August 16, 1954. Hon. Thomas B. Curtis, Member of Congress (Missouri). What Now For

Korea. Congressional Record, Wednesday, July 28, 1954. Hon. Paul W. Shafer, Member of Congress (Michigan). Private Enterprise

Plan for Korea. Congressional Record, Friday, March 5, 1954. Hon. Paul W. Shafer, Member of Congress (Michigan). Free Enterprise Plan

for Korea. Congressional Record, Tuesday, July 20, 1954.

## ABILITY OF U. S. S. R. TO FURNISH ECONOMIC AID TO UNDERDEVELOPED COUNTRIES

Mr. CROMWELL. Mr. Chairman, in concluding my oral statement, I want to say I noted with the greatest gratification that you had requested from the proper official sources a checkup on the capability of the Soviets to compete with our country in respect to economic aid for undeveloped areas.

And aside from any consideration of the necessity for such aid, insofar as the security and welfare of the United States is concerned. my own observations of the Soviet economy, which consisted of a personal visit in 1907, and then over the past 20 years, convince me that our apparently accepted official figure of approximately \$135 billion for the Soviets' gross national production is grossly exaggerated.

I think in view of the vast devastation wrought upon the Soviets during World War II, a growth from about \$30 billion gross national production in 1930, to the officially accepted figure of \$135 billion currently, would require an average annual expansion which disproportionately exceeds that of our own country, where no devastation

took place.

As I say, Mr. Chairman, I have noted with the greatest gratification that you have observed these discrepancies between facts and fiction, and I feel satisfied that, thanks to you, we will not be drawn into another era of widespread foreign aid spending-at least not by the threat of competition from the Soviets, whose unfortunate people are themselves in dire need of economic aid right now, as I have been told.

Are there any questions, Senator? The CHAIRMAN. Any questions?

No questions.

Mr. Cromwell. Thank you, sir, for your courtesy. The Chairman. Thank you for your appearance.

The CHAIRMAN. Mr. Reuther?

Mr. Reuther, president of the United Automobile Workers of America.

# STATEMENT OF WALTER P. REUTHER, PRESIDENT, UNITED AUTOMOBILE WORKERS OF AMERICA

Mr. Reuther. I am appearing, sir, on behalf of the 1½ million members of the United Automobile, Aircraft, and Agricultural Implement Workers of America, and I wish to express my very sincere appreciation for this opportunity. I appear here this morning in

support of the legislation now pending before your committee.

I would like, first of all, to support the remarks and the recommendations of Mr. Nathan and Dr. Rusk, but to disagree very sharply

with the person who appeared immediately before me.

I have a prepared statement, Mr. Chairman, which I would like to enter into the record, and then I would like to touch upon some of the highlights orally, if I may.

The Chairman. You may. Your statement will be entered in the

record.

Mr. REUTHER. Thank you.

The Chairman. Proceed as you wish.

## ROLE OF ADEQUATE MILITARY POWER

Mr. REUTHER. We of the American labor movement believe that we come before your committee in this kind of situation with good credentials.

The American labor movement has supported every effort of our country to build adequate military power to meet the threat of aggres-

sion in the world.

But we have believed that adequate military power is but the negative aspect of a dynamic foreign policy, and we believe that the struggle in the world for the hearts and the minds and the loyalty of millions of people cannot be won with guns alone; that we need to be strong militarily in order to buy the opportunity, to give us a chance, to take the offensive on the economic and social fronts in the struggle against poverty and hunger and ignorance and disease and human desperation. This is the area where freedom must win the great decision over the forces of Communist tyranny.

## CHALLENGE OF PEACE AS COMPELLING AS CHALLENGE OF WAR

We have long been of the opinion that the challenge of peace is as great and as compelling as the challenge of war. We learned that we could not win the war by policies of "too little and too late," with half-way and half-hearted measures, and we do not believe that we

can win the peace by such inadequate policies and methods.

We have unlimited faith in the good sense, the capacity, and the loyalty of the American people; we believe that the kind of positive leadership that the world situation requires will be supported by the overwhelming majority of the American people, just as they supported the Marshall plan efforts to check the march of Soviet imperialism to the channel, just as they supported the Berlin airlift, and the struggle to stop aggression in Korea. We think that they will help

America meet this new challenge.

This new challenge is something quite different than we have ever I believe that if you will look at the work of the faced in the world. free labor movement of the world, you will understand why free labor is one of the most effective anti-Communist forces in the world. is because we understand and we translate that knowledge into practical, day-to-day action that the struggle to make peace and human freedom secure in the world is inseparably tied together with the struggle for social justice. You cannot make peace or freedom secure in a test tube or in a vacuum.

These values that we, as a free people, cherish, must be made secure

in a world that is filled with ugly problems.

## REVOLUTION SWEEPING ASIA TODAY

And the revolution that sweeps Asia today is a revolution which grows out of the realization on the part of hundreds and hundreds of millions of dispossessed peoples that the poverty and the injustice that they have borne throughout the centuries is now within their capacity to deal with. They have finally come to understand that poverty and hunger are not beyond their ability to deal with effectively.

These hundreds of millions of people are on the march, and they are going to find bread. The great question is: Are they going to get

bread at the price of losing their freedom?

Now, the Communists are going to be there, and they have demonstrated techniques of forging poverty into power; and what we need to do is find a way to help people to help themselves, to get the wrinkles out of their empty bellies, to get more of the good things of life for themselves and their families, to share in the blessings of economic and social justice, and the fruits of the tools of economic abundance. Our job is to help people get bread with freedom, to get food in their stomachs without putting their souls in chains.

We in the labor movement do not believe that the Communists started this revolution. They are just riding on its naked back. They are merely exploiting the poverty and the injustice in the world.

What we need to do is not to exploit these evils but to try to find a way to help people deal with these basic problems.

## DETERIORATING POSITION OF UNITED STATES IN ASIA

We are doing badly in Asia. I have just come back from a trip to Asia, where I met with people in the villages, I talked to workers in the factories, I talked to businessmen, I talked to educators, I talked to religious leaders, I talked to government officials. In India specifically, despite what I believe to be a great contribution by a dedicated and competent Ambassador, Mr. John Sherman Cooper, our situation is deteriorating to a very dangerous point.

We are doing badly because American foreign policy, in my opinion, has lost touch with the realities of that part of the world in which people are struggling to meet the basic, elementary necessities of life.

The other day there was a newspaper editors' association meeting in Washington, and according to the New York Times, they took an unofficial poll at a breakfast; 54 members of the American Society of Newspaper Editors voted that we were losing the cold war, and 27 voted the other way.

Now, no one should get partisan satisfaction out of that, because this matter of preserving human freedom and peace in the world far transcends the question of partisan politics. We are fighting this struggle for keeps. There will not be a return match. We either win the hearts and the minds and the loyalties of these hundreds of millions of uncommitted people of Asia in the unalined nations, or the Russians will win their loyalty. And if they do they will tip the center of world balance against the free world, and they will tip it irrevocably.

Once we have lost these people, the prospect of regaining their loyalty is very dim.

## DANGER IN OVEREMPHASIS ON MILITARY POWER

What I am worried about is that we get in trouble because we place too much emphasis upon the purely military and negative aspects of the struggle against communism and other forms of tyranny.

You go to Asia, and people talk about our military pacts, our military power; our H-bomb is the symbol. And I believe this policy in Asia, a policy that made sense in Europe where we had military alliances and military power supported by economic aid, cannot mechanically be applied to Asia. There the situation, the historic, economic, and political development, is quite different.

This overemphasis on military power and military alliance in the part of the world where the struggle essentially is to feed and clothe and house hundreds of millions of people, trades reliable democratic friends for doubtful military allies

friends for doubtful military allies.

We have got tough anti-Communist slogans in Asia, but our policies

are playing into the hands of the Communists.

Now, the bill before your committee proposes that out of a total authorization of \$4,859,975,000, 86 percent will be for military or defense-supporting activities, and only the balance for economic aid.

# ASIANS HAVEN'T HAD SAME EXPERIENCES WITH COMMUNISTS AS UNITED STATES

Mr. Chairman, I think we need to try to understand really what the motivations are in Asia, what the social and economic and political dynamics are that move these hundreds of millions of people who have just won their freedom. You know, when you have just won your freedom you have a different feeling about it than if you have had it for 180 years as we have had our independence. These people in the unalined nations have a feeling that their problem, that the challenge to them, is not communism; they have not had the experience that we have had; they didn't go through the cold war. They didn't go through the period where we demobilized, at the end of the war, when we made every effort to find a way to live with the Russians; when we proposed steps to control the atom so it could be harnessed to man's peaceful needs, so we could avert a nuclear arms race. But while we were doing all these things, we met betrayal by the Soviet Union.

The people in the unalined nations have not had that experience. While we were having that experience, they were in the final struggle to win their freedom; having won their independence, they assumed overwhelming problems and obligations. And so they look at the world from the point of view of their experience. We need to understand that in trying to understand why they act as they act, why they

do things that are quite different from what we would do.

It is because they start from a different place in history than we start.

## THE FREEDOM STRUGGLES IN ASIA

Take India. You know, you can try to understand economic statistics intellectually. After 6 years of heroic struggle, the people of India have raised the per capita income from \$50 to \$56. Seventy million people—and I saw some of them—the landless laborers in the Indian village had \$20 income per capita last year.

You can try to understand that intellectually, but you really have to see it to understand it emotionally, to understand it with your

heart as a human being.

I saw 3-, 4-, and 5-year-old girls in a potato patch with little hand hoes, hacking away, and the temperature was 105° or 106° in the shade. This was the fourth time they were going through this potato patch.

The first time they went through, they got to keep a very small portion of their crop for their labor. The people who own the land get

the major portion.

The second time they went through the same patch, they got a little bit higher percentage; the third time still higher; this fourth time they got to keep every potato they found.

They were picking up little potatoes no bigger than a pea, and putting them in a little basket, because that little potato is the differ-

ence between life and starvation.

When you talk to these people about guns, about military power, when they think that their challenge is poverty—ugly, naked, brutal poverty—a day-to-day struggle of keeping body and soul together, and when they read of our great food surpluses, they cannot square

these things with the moral or humanitarian values that our great

Nation has symbolized throughout its history.

And these are the problems. When you see their poverty, Mr. Chairman, you can then begin to understand why they think that freedom's struggles in Asia will be won in the ricefield, not in the battlefield.

We are losing in Asia, not because the Communists are better than

we are, but because we are not trying.

## EFFECTIVENESS OF COMMUNIST ECONOMIC PROGRAMS IN ASIA

I saw how effective the Communists are in pushing their economic programs of penetration in Asia. I saw it in many fields, and I believe there is danger in the new tactics of the Soviet Union that came out of Geneva. I am not fooled; I worked in the Soviet Union almost 2 years; I worked with the underground movement fighting communism and Fascist tyranny all over the world, and I think I know something about what motivates the power men in the Kremlin. This Geneva spirit, the New Look, is a tactical shift. It is not an abandonment of their long-range program of dominating the world. They have come to the realization that the nuclear stalemate gives them an opportunity to move on the economic front, to penetrate economically, and to subvert politically.

And they also believe that if they can smile at the free world alliance, which essentially is put together around the negative values of common hatreds and common fears, that maybe they can dissolve the bonds that tie the free world alliance together, and that they can get

us to relax, and lull us into complacency.

So they are moving.

One of the greatest needs of India, and this is true of many other undeveloped economic nations, is steel. The people of India sent their delegations to America, they tried and they tried and they tried to get help to build their steel industry.

Their needs are tremendous. They have got 370 million people with less than 1 million tons annually of steel capacity. We have

167 million people, with 121 million tons of capacity.

So they came here to get help and were rejected. The Russians saw the opportunity, and they moved in to fill the vacuum created by our failure, and the Russians are now building a big steel mill in India, and the Germans are building a steel mill, and the British are building a steel mill, but not America, where they came knocking on our door for years and years and years and were rejected.

I was told by the minister of the steel industry in India, who gave me this whole story of what they did, who they talked to, how many days and years they tried in America. They came to Washington, they went to Pittsburgh, they went to New York, they tried every-

where; and the doors were always locked.

And he said to me, "Here is what the Communists are doing. You people need to understand the tremendous emotional impact that they get out of what they are doing."

When the Russians agreed to build this steel mill, they also said,

"But you need steel right now."

And they said, "Yes."

He said, "We asked for one-half of 1 percent of the annual steel capacity of the United States, but we could not get it, one-half of 1 percent, to help us. The Russians said, 'We will give you a million tons over a 3-year period while we are building the factory for you.'

"And then a few weeks later," he said to me, "one of the top economic ministers of Communist China came to my office, and he said 'China wants to be friends with India. We have many of the same problems. What is your most serious limiting economic factor?"

And this minister of the steel industry said, "I told him steel; this is

the bottleneck. Everywhere we are trying to expand and create an

industrial base for building a better life for our people.

"And the Chinese Communist minister said, 'Steel is our bottleneck, too. But we want to be friends, and the real test of friendship is not are you willing to share your surpluses, but are you willing to share your scarcity.'

"And he said, 'We haven't got enough steel, but we will give you some.' And he said, 'We will give you 50,000 tons of steel, even

though we can't afford to spare it?".

Now, just think, if a millionaire in a Cadillac picks you up when you are hungry and he takes you home and gives you a big meal in the kitchen where there is more of everything than he needs, he doesn't make an impression upon you of being generous. But if you meet someone who has got one crust of bread and he is hungry, and he says, "I will give you part of my crust," that affects you.

This is what is happening in Asia. And when people say that the Soviet Union is not equal to competing with us, to doing this job, I

say that they are not facing the realities of the situation.

# RUSSIA'S MACHINE TOOLS

In Bombay, India, the Soviet Union has a permanent machine-tool exhibit. You can go in and look at the machinery, and they will take the orders. They will give you very favorable prices and long-term arrangements in paying it back.

I have here catalogs that I picked up in the Soviet machine-tool I grew up in this business. Nobody can kid me about mass production technology, what is good machinery, what is bad machin-

ery. I invite anybody to look at this equipment.

I won't bother with what it is. It is the most modern type of machine tools built. They don't have any problems with patent rights. They just buy one of the latest model machines somewhere in the world that America produces or Germany or England, and they duplicate it. They don't have to do research, they don't have to worry about patents. They duplicate it.

All kinds of machinery, anything you want, they have got it.

saw it with my own eyes.

Not only machine tools in terms of modern technology, but then you get into welding equipment, the largest construction cranes, agricultural machinery, all the latest types; bulldozers, earth-moving equipment, scrapers, dumptrucks, special petroleum trucks, fire trucks, automobiles, anything you want; linotype machines with the type in any language. All you have to do is come in and they will work it out.

# DANGER IN UNDERESTIMATING THE RUSSIANS

Now, if we think that we can count upon defending our freedom and the peace of the world by saying, "Well, the Russians are only bluffing; there is no substance behind their propaganda; they have neither the economic base to deliver on the economic front nor, if they did, would they follow through," I say to underestimate the Russians in this field is to do a great disservice to our own country and, I think, a great disservice to the values that we as a free people believe in.

I think if you could sit down with the people of Asia as I did, and talk about these problems, you would come to the realization that if we could begin to work effectively by using our economic-aid program to advance the efforts of these people to help themselves to fight

poverty and hunger, we could begin to meet this challenge.

Because we have a margin of superiority in this field that the Russians cannot match. But if they work at it, and we don't work at it, they will win and we will lose. And that is precisely what is happening.

THAILAND'S COMPLAINT

Take little Thailand. They are complaining. They are one of our military allies, but they are complaining because we are putting more and more emphasis upon guns, when they need more and more emphasis upon economic and social action.

In 1954, for defense-supporting activities in little Thailand, we appropriated \$3,580,000. In 1955, we increased that to \$29 million

for defense-supporting activities.

If you take the 1956 budget for defense-supporting activities for Thailand, the Philippines, Indochina, and Indonesia, it is \$479.5 million; only 8.2 percent is for economic aid. And that is why we are missing the point.

# DANGEROUS OVERSIMPLIFICATION OF IDEA OF BEING EITHER FOR US, OR AGAINST US

Another thing that I think we need to understand, Mr. Chairman, there has been a dangerous oversimplification of this idea that you are either for us or against us. You draw a line, and you say you either stand on this side of that line or we push you on the other side.

That reflects a complete lack of understanding of the sensitivities of these people who just won their freedom. When our freedom was only 8 years old, as India's freedom is today, we were acting exactly as they are acting, and for the same reasons. When you read again what Washington said in his Farewell Speech, you begin to understand that these people are guarding their newly won independence with great jealousy and great passion, and they don't want to do anything they think will compromise it.

Maybe they are overly sensitive, but we have to work with them as they are, not as we would like them to be, and we have got to work

in the world as it is, not as we would like that world to be.

I think if you will read some of the very sound conclusions of the subcommittee headed by Senator Mansfield, where they deal with this whole question of the unalined nations, you begin to understand that we have misunderstood them, and that we tend to push them in the wrong direction because we fail to understand them.

#### PROBLEM OF ACHIEVING UNITY IN DIVERSITY

The Communists and the satellite nations that are built around the Soviet Union get unity in conformity. But the free world has to build the grand alliance of the free world and the free nations in

the world by achieving unity in diversity.

This is much harder to do, but it is the only way that freemen and free nations can associate themselves with each other. They stand united in terms of the broad human and democratic values that they believe in, and which they are committed to defend; but within that broad framework there must be diversity. But you maintain unity within that diversity.

This is a very fundamental thing, because this is the crux of our understanding people and, out of that understanding, winning friends

in the world.

#### BASING HELP ON NEEDS

Now India has got a new 5-year plan, you may have read yesterday in the New York Times and other papers. They have got roughly

a \$11/3 billion gap in their budget that has to be filled.

They will find a way to fill it. But if we help them, not to buy friends—I agree with Dr. Rusk completely, you can't buy friends, you can only earn friends. Friendship is not something that is quoted on the stock market. What we need to do is to help them, not because the Communists are going to take them over; we need to help them because they are in need. When we help them because they are in need, we begin to be more effective against the Communists than if we helped them because we say the Communists might get them.

To act for that reason offends their sensitivity. It challenges their integrity. If you say to a man, "I really don't want to help you because you are hungry; I am just helping you because you may stray from the straight and narrow path and go with the Communists," he isn't going to appreciate that. But if you say, "I want to help you because you are hungry," and because you help him he does not stray from the straight and narrow path, then you are really doing an effec-

tive anti-Communist job.

# USING OUR FOOD SUPPLY INTELLIGENTLY

I think the people of Asia need grants of aid; they need loans. They would prefer loans to grants in many cases, although I think they need both. And we need to help them with our food surpluses.

I believe that there are no surpluses of food in the world as long as there is one hungry human being; there is not too much to eat in the world. I believe that if we use our food surpluses intelligently and with courage and with vision, this will give the American people a moral force in the world stronger than all the powers of the H-bomb in the fight against Communist tyranny.

# EMPHASIZING MULTILATERAL AID APPROACH

And I think, Mr. Chairman, that we need to put more emphasis in our foreign aid program through the channels of the United Nations, through SUNFED and the other specialized agencies, so that we can have a multilateral approach, not merely a unilateral.

Why is this so? This is not because we have bad motives. I think the American people are dedicated to peace. I think that we believe in all the values of human decency and human dignity and the worth of the individual, but we are misunderstood because, when we come with aid, they always somehow question our motives.

If we did some of these things through the U. N., we would get a great deal more results for the same money spent than if we did it directly, because then we raise this thing above the motives of the

individual country making the contribution.

Other countries share in the planning of the thing, in the executing of the plan; and, further than that, we have a glorious historic opportunity: here is a chance to challenge the integrity and the good inten-

tions of the Russians.

We know that they have got a program of economic penetration in order to create the climate for political subversion. Let us challenge them to join with us in a jointly sponsored U. N. program to fight poverty in the world, not to exploit poverty in the world; to help people get a measure of economic and social justice, not to use their misfortune in order to try to enslave them politically and spiritually.

If the Russians say "yes," then we take out of their economic penetration program the political subversion. If they say "no," they will stand naked before the world, and everybody will know why they are

now sponsoring an economic penetration program.

Here is a great chance, and I think America ought to seize this

golden opportunity.

I don't propose we do all of our work through the U. N. I propose that we begin to put the major emphasis of our economic aid on programs carried on through the U. N.

I would like to point out several other things that I think need

attention.

#### DANGER IN UNITED STATES SHORTAGE OF TECHNICAL PERSONNEL

This is not really just a part of the foreign aid problem, Mr. Chairman, but I think that we are losing the initiative on the educational front by falling short of training the great numbers of competent technical personnel that we need to maintain the technological lead in the world.

You have seen some of the figures. The Soviet Union is moving ahead; they are outstripping us. I served on the civilian panel created by the Joint Congressional Committee on Atomic Energy, where we spent a year studying the peacetime uses of the atom, and in every phase of our program, whether it be the AEC research program, the application of the atom to medicine or agriculture or industry, in every phase of that activity the serious and limiting factor was the shortage of trained engineering and technical and scientific personnel.

That is our problem today, and it is going to multiply and com-

pound tomorrow, and it will get progressively more serious.

These are the facts of life at this point in human history: The country which will lead on the technological front, and will commit that lead to the struggle to raise the living standards of people in the world, is going to win the struggle for the minds and the hearts and the loyalty of people.

Mr. Chairman, we need to weigh these facts, and we need to act to meet the challenge that they reflect:

In 1920, Russia had 41,000 graduate engineers. In 1955, they had

541,000 graduate engineers.

In 1920, the United States had 215,000 graduate engineers in all

fields. In 1955, we have 500,000.

The Soviet Union graduated from its higher institutions of learning in 1950, 28,000 people in the categories of engineering. In 1955 it went up to 63,000.

And in that same period, 1950, we had 52,000 graduate in the same classifications; and in 1955, it dropped to 23,000.

The high point was a reflection of the GI bill of rights, the young fellows going in and taking advantage of that. Then back to 23,000.

If you take the whole field of scientific, technical, and engineering personnel in terms of the higher schools of learning, in 1955, the Soviet Union graduated 170,000 people in those categories; and the United States graduated 70,000.

In the last 5 years, competent teachers in the field of science and mathematics have decreased by 53 percent in the United States. Industry is stealing our best faculty members because they can't get sci-

entists and technicians otherwise.

And I say, Mr. Chairman, we need to meet this problem.

# TECHNICAL SCHOLARSHIP PROGRAM RECOMMENDED

I haven't time to develop this point as it should be in connection with an adequate foreign-aid program, but I would like to recommend your sympathetic study and consideration of the scholarship program which I submitted as a part of my recommendations on the Atomic Energy panel. If we could have a scholarship program to meet the challenge of war, as we did, why can't we have a Federal scholarship program to meet the challenge of peace?

One of our problems is that even if we had a realistic foreign-aid program tomorrow, we haven't got the technicians to go with our aid.

I have been saying for a long time, Mr. Chairman, and I believe this with all my heart, that the more young Americans we send as technical missionaries, with slide rules, with medical kits, with textbooks, to the other places of the world to fight poverty, hunger, ignorance, and disease, in the positive struggle against communism, the fewer we will need to send with guns and flamethrowers to fight on the world battlefields.

It is just that simple. If we gave thousands of young Americans the opportunity to train themselves to serve in this field, to meet our domestic needs, and to meet our foreign needs as specialized technicians, we would give Americans, young Americans, a glorious opportunity to serve the cause of freedom and human decency.

And we are losing, and we are losing badly.

#### PROBLEM OF TRAINING TECHNICIANS OF ASIAN COUNTRIES

You have got the problem, too, of training the technicians of these countries. For example, India will need thousands of trained technicians. They have got the schools to give them academic training, but they have not got the factories to give them practical training. And the Russians say, "Send them to Moscow. We will train them, any number. Just tell us what you need. We have got the schools. We will make special facilities to accommodate their language problems. Just send them on."

The Russians will train them in the new technology, and they will indoctrinate them politically; and these technicians and engineers and scientists are going to be the people who are going to shape the future of Asia, because they are going to be in strategic places in each of these countries.

We need to help such countries as India in the training of their technicians, engineers, and scientists. They want to send these people to America; we need to help them find ways to train these people, so that they cannot only learn our technology, but can go back to their respective countries knowing that America is committed to these basic democratic and human values and with their faith in these values reinforced by their human experience in America.

#### USING OUR FOOD SURPLUSES INTELLIGENTLY

Specifically, also, Mr. Chairman, I would like to urge you to examine my prepared statement dealing with the use of our food surpluses. Without imposing on your time to go into the details now, I want to point out that we are not using our food surpluses intelligently or effectively.

We are creating serious economic dislocation in the economies of other countries that are not necessary, that will not be necessary if we use our food surpluses within the framework of a program and policies that would direct the use of these.

First of all, as insurance policies against the possibility of famine or crop failure in the countries around the world where the margin of subsistence is very narrow.

Second, not to squeeze out food from some other source so that we create a problem of dislocation in some other producing country, but to use the food to supplement and to improve the diet of people; to give them more to eat, not to replace other food.

Third, our so-called surplus food can be used as a tremendous antiinflation backstop. Take India as an example. As they push their industrialization program, and as they expand their purchasing power by greater industrial activity, this will create inflationary pressures, particularly on prices for food, which is in short supply, measured against need, against hunger. Our food could be used to counterbalance that inflationary pressure.

Fourth, there has been worked out, and I recommend it to your sympathetic and careful consideration, a broad food program by the FAO, the Food and Agriculture Organization of the U. N., which proposes a very practical basis for using our food surpluses as a means of creating capital that can be used in the industrialization programs of these countries.

Here is a chance to translate a liability into a great international asset, if we have the wisdom and the good sense to do it.

I would like to recommend and support the proposal advanced by Senator Murray, and supported by 23 other Senators, to create an international food and raw material reserve, which will help stabilize the world market in this field.

## MAKING PEACE AND FREEDOM SECURE IN THE WORLD

In conclusion, I would like to say this, just as a human being, just as one American who has a couple of kids growing up back in Detroit, whose freedom and whose future are inseparably woven together with this whole struggle to make peace and freedom secure in the world.

If I don't like the house I am living in or the neighborhood, I can

If I don't like the house I am living in or the neighborhood, I can look around and find another house in another neighborhood. But I can't move out of the world, and I can't move my children out of the world. We have got to make this world the kind of a place in which the values we, as a free people, believe in can be made secure.

# LEGISLATION BEFORE COMMITTEE SUPPORTED, BUT BELIEVED INADEQUATE TO MEET THE CHALLENGE

I have a feeling, Mr. Chairman, that we have not put the best side of America forward in this struggle, and that we have never quite measured up to the total challenge or the scope of the world responsi-

bilities that history has placed in our hands.

I support the legislation before your committee with the amendments and additions set forth in the statement filed for the record—perhaps the best that we can do under the political circumstances in which this legislation is being considered. But I tell you in all good conscience I do not think it is adequate to meet the challenge, and I would like to recommend that in terms of the long pull you give consideration to the specific proposals that I advanced to the Secretary of State, Mr. Dulles, on March 23, because I think those proposals more nearly reflect the realities of the world situation.

# IMPORTANCE OF MOBILIZING GREAT SPIRITUAL AND MORAL POWER OF FREEMEN

We have unlimited faith in the capacity of freemen. We have unlimited faith in America. I think we can win through over the ugly and immoral forces of Communist tyranny. But we can do it only if we find a way in the world to mobilize the great spiritual and moral

power of freemen.

I have been asking this question, Mr. Chairman: If we can get millions of people and great nations working and marching and fighting and sacrificing and dying because they share common fears and common hatreds in war, pray tell me, I ask, why can't we find a way to tap the great spiritual reservoir that lies deep within the human breast and get the people of the world working and marching and sacrificing and building together in terms of peacetime human values because they have common hopes and common aspirations and because they share a common faith?

I believe we can. I believe that somehow we can get people marching and building in the image of their faith, and not only in the image

of their fear.

This is the great challenge of the free world. And because we are the strongest of the free nations of the world, we have an overwhelming

obligation, an overwhelming opportunity.

I pray, Mr. Chairman, that this legislation, even though it is not adequate, will be passed, and that beyond that there will be a reevalua-

tion of American foreign policy and economic-aid programs, and that they will be brought into clear focus and balance with the world's realities.

If we will do that, I believe that somehow we can win through; and that, together with free people everywhere, we can build a world of peace and freedom and justice and human brotherhood.

I thank you for this opportunity to be here.

The CHAIRMAN. Thank you very much, Mr. Reuther, for your appearance.

There may be some questions. Senator Sparkman?

Senator Sparkman. Not at present. The Chairman. Senator Humphrey?

#### EFFECTS OF MILITARY AID TO PAKISTAN

Senator Humphrey. I would like to get Mr. Reuther's evaluation of our military aid to Pakistan and its relationship to Indian economic development, as well as to our relationships to India.

I imagine, Mr. Reuther, that while you were in India you heard a

good deal about this.

Mr. Reuther. I did, Senator Humphrey, and I regret to have to report that, unfortunately, our overemphasis on military power, military alliances has, I think, distorted our realistic evaluation of the value of military pacts with certain Asian countries.

The people of India, rightly or wrongly, believe that we are giving military aid to Pakistan, and that that aid is a threat to them, that it

will be directed against them.

Now, there are 500 years of history of invasions from the north, and woven into this is the thousand-year-old struggle of religious hatred and intolerance between the Moslems, who are predominant in Pakistan, and the Hindus, who are predominant in India.

It is difficult for us to understand that nearly a million people were killed in the riots between the Hindus and the Moslems at the time of

partition.

This all gets woven in there, and they have a feeling like we are interfering in this internal struggle. And the result is that India not only feels that there is this threat from Pakistan, but they are then compelled to divert very limited economic resources that they need to use for economic development, and spend that money for military

purposes.

They have increased their military budget, and it has been at a level over \$40 million higher each year since the United States-Pakistan pact was signed in 1954. Now, that does not sound like much in America, but in India that is a lot of money. And they said to me that, if they really were trying to meet the realities of the military threat that they think Pakistan represents, it would require 65 percent of their national budget.

Now, this is the problem.

The pact does not really win us friends in Pakistan, either, you see. I am not an expert on Asia, I don't pretend to be. But I talked to people who have a standing as really being authorities on these problems in Asia, and they told me that it is only going to be a short time before our allies are going to wind up with a neutralist tag, because their basic need is not military power, it is economic assistance.

You go into Karachi, which is the capital of West Pakistan. I went there. You should see the hovels, the mud huts, places not fit for animals. And there are 2 and 3 families crowded into 1 room. You can't tell these people that their greatest need is guns, that their greatest threat is communism, when poverty is right on their doorstep every morning and every night, and it won't go away.

These are the practical problems.

In addition to ignoring the economic realities, we get ourselves in-

jected into this struggle between two countries.

I don't know the real value of these military alliances. I am not a military expert. But it seems to me that, in the age of nuclear warfare and guided missiles, little isolated military groups are not really the decisive military factor in the world. I talked to a person who was in Asia recently, who said that he talked to top people in the government of one of our military allies, and he said, "If there is a struggle in Asia, how long can you guarantee that you can commit your military forces on freedom's side?"

And the reply he got was, "Do you want me to be specific or

general?"

He said, "As specific as you can be."

The reply was, "Well, if you insist upon me being specific, I will tell you. I can guarantee them they will stay in the field for at least 15 minutes."

Now, we are kidding ourselves that this is the basic problem.

Obviously, every country has to have some military forces to maintain certain security internally and meet little problems at the borders. But in terms of the world military balance, these countries cannot contribute in that balance.

That is essentially a technological matter. It is a question of whether the metallurgists get a metal that will take higher heat so we can get more thrust out of a jet engine? It is a matter of whether or not we can get the same metallurgy translated into guided missiles so we can get enough power in that missile without melting the metal, and which will carry an atomic warhead to a distant target.

These are the military matters. At the point we try to thrust these little nations into this on the assumption that they are vital in terms of the world military balance, we miss the whole point, in my opinion.

of the world military balance, we miss the whole point, in my opinion. Senator Humphrey. Mr. Reuther, I noticed in your statement a quotation which has been brought to my attention. It is from a clipping in the newspaper Dawn, of Karachi, which I received from Karachi from an old friend of mine who is working there.

Mr. REUTHER. That is right.

Senator Humphrey. That newspaper is, as you have noted, and I think appropriately so, considered to be at least a semiofficial, or informal, spokesman for governmental policy in Pakistan. And that statement read:

\* \* \* the big powers cannot have it all their own way and expect the smaller powers to strengthen their hands against their own enemies while ignoring the dangers which threaten the smaller powers from other quarters. For instance, if there is any threat of physical aggression to Pakistan, it does not come primarily from the Soviet Union but from India.

Did you find that our military assistance, as it was related to you or described to you, might very well have the result of throwing out

of balance the historic balances of power in the area, to the dismay of

those whom we would like to have as friends?

Mr. Reuther. There is a very strong feeling to the effect that we have injected ourselves into that area of the world and we have disturbed the whole natural balance of military forces, and that, therefore, we have created an arms race between Pakistan and India, and we have disturbed the normal relationship of those two countries and of Afghanistan.

This has created an emotional block. You cannot talk to an Indian, whether he is a worker or a peasant in the villages or a government official or a business leader, about the struggle between the Communist world and the free world in terms of a military struggle. The only military struggle they understand is between India and

Pakistan.

# CONTEMPLATED TOUR TO RED CHINA OF PAKISTAN OFFICIALS

It is also interesting to take note that the top officials of Pakistan with whom we have this military alliance are scheduled within the next several weeks to make an official tour to Red China. This is the first step toward their getting into a position which we call neutral, and which they call being unalined. And I think their word is better, because India, in my opinion, is not neutral in terms of the basic values that we are struggling to defend. They are unalined. They just haven't chosen sides.

And I think the Mansfield subcommittee report puts it very well, that if we think people ought to be able to be free and independent, that means that they can be free of us and free of the Soviet Union

also, at the same time.

Senator Humphrey. I have just 1 or 2 more quick questions.

# ADMISSION OF COMMUNIST CHINA TO U. N.

Senator Sparkman. Before you continue, may I ask this question: Did you see a report in the press a couple of days ago to the effect that the Prime Minister of Pakistan, I believe it was, had said the United States ought to go along with the admission of Red China to the U. N.?

Mr. Reuther. Well, most of the countries of Asia, whether we have alliances with them or whether they are unalined, all have that

point of view.

Senator Sparkman. But in the case of Pakistan, bearing out your suggestion about this tour to Red China, it indicates a swaying of neutralism and away from what we felt was a fast alliance with us.

Mr. Reuther. That is right, and I personally expressed this very thing in India when it was raised. This is a very sensitive thing, Red China's position in the U. N. I said maybe legally they do have a claim, because they occupy that part of the world, and because they are the mainland of China, but morally they do not have a right. I oppose their admission because I think morally they have to win their right by proving they are willing to settle the problems of the world by law and not by aggression.

But they feel differently, and this comes out of kind of a solidarity of the people of Asia, who have been struggling to free themselves from the domination of Western colonial powers, and it is hard for us to really understand about how they feel about these things.

It is a great emotional feeling about these matters in Asia. I was challenged, for example, by a man who said, "You are supposed to be pulling the free world together, free world alliance, aren't vou ?"

And I said, "Yes, that is what America is trying to do. We are

trying to build a world alliance of free nations."

"Well," he said, "just look at Asia. How many nations that are free, that had really democratic elections, have you got in Asia as your military allies?"

I invite you to check the list. The Philippines is one. Pakistan has not had their real democratic election yet; it is coming up, but they haven't had it yet. Thailand hasn't had theirs. You look around. and it is really kind of funny; the countries that have really had their democratic elections are the countries you can't get alliances with

There is a reason for that, and we need to understand that reason, because, until we do, we will not be realistic in our foreign policy in

Asia.

# DISCUSSIONS WITH UNITED STATES OFFICIALS IN ASIA

Senator Humphrey. Mr. Reuther, did you have a chance to talk with our American technicians and American aides who were there, below the ambassadorial rank? I know you met with Ambassador Cooper.

Mr. Reuther. I met with people at both the technical level of Government operations, U. N. operations, and private. I met with the Ford Foundation. They are doing a tremendous job in Asia.

If they were here, Mr. Chairman, I think that the people who have

been to Asia, who understand Asia, would essentially agree, maybe not with all the details, but would agree with the primary emphasis that I have made here, that we are putting too much stress on military power, and we need to emphasize the economic and social aspects of our foreign aid program in Asia.

Senator Humphrey. I just want you to know I have written to Mr. Hollister and asked for the reports of the field representatives of our respective missions. I recognize those reports have to be gone over at the top level, but I would like to know what the people out in the

area are recommending.

We have to go to the Senate floor to cast a vote, I gather, and I just want to say, Mr. Chairman, that I have been very pleased with Mr. Reuther's testimony. Maybe I feel this way because I basically agree with it. It is just my point of view.

(Mr. Reuther's prepared statement and accompanying documents

are as follows:)

STATEMENT BY WALTER P. REUTHER, PRESIDENT OF THE UNITED AUTOMOBILE WORKERS OF AMERICA

Mr. Chairman and members of the committee, I appreciate this opportunity to appear here today on behalf of 1,500,000 members of the United Automobile, Aircraft, and Agricultural Implement Workers of America, in support of the foreign aid legislation you are now considering.

#### UAW SUPPORTED THE MARSHALL PLAN

We believe that we come before you with good credentials. I remember very clearly the day 8½ years ago when we in the labor movement began our record in the support of postwar United States programs of international economic cooperation. It was on the afternoon of Wednesday, October 15, 1947, that Philip Murray, then president of the CIO and of the United Steelworkers, welcomed to the rostrum of our convention in Boston a man he called "one of the world's greatest champions of peace," George C. Marshall, then our Secretary of State.

Secretary Marshall came to our convention to make one of his historic early statements outlining the Marshall plan. The CIO endorsed Secretary Marshall's economic aid program. We gave our wholehearted support to him and his proposal.

Since then we have supported our Nation's economic assistance and mutual security programs, seeking to make constructive suggestions concerning them

from time to time.

Appearing before this committee on February 5, 1948, on behalf of the UAW, I appealed to the Congress to implement the European recovery program. I presented a statement on that occasion that is as valid now as it was then:

"Aid that is less than enough, that is given as a dole, or as a cash-and-carry proposition, or by exacting first mortgages on entire economies of other nations, may buy us a little time but it will fail to win the friends and allies we need if

we are to make democratic and human values secure in the world."

We also said that the whole question of aid at the time "could properly be characterized as Operation Survival, because if we fail, freemen and free institutions in the world will not be able to survive. In destroying fascism on the battlefields, we did not pinch pennies. We did not get out the congressional eyedropper to meet the requirements of the war program. And because we didn't we won the war. And if it is going to be 'too little and too late' to meet the problems of peace, we will lose."

That statement, too, applies today as it did then.

Eight years ago this committee, the Congress, and the President acted in a nonpartisan manner to halt a creeping Pearl Harbor of Communist imperialism. By infiltration and military strength Communist aggression was threatening to sweep over the Near East and Europe to the Mediterranean and the English Channel.

The Marshall plan was conceived and effectively implemented. The American people invested tax dollars. All segments of our society and our economy, including labor, participated in this great undertaking in international cooperation. In helping to rehabilitate Europe, we achieved new records in production, attained higher standards of living, and rolled back Communist expansionism. Six years ago, as a supplement to the Marshall plan and as a first step in helping the people of the underdeveloped countries to share in the production, distribution, and consumption of the abundance of this age of automation and atomic energy, the President proposed and the Congress supported in a bipartisan manner the point 4 program for technical assistance, at the same time contributing to the development of technical assistance through the specialized agencies of the United Nations.

# REPORT OF SUBCOMMITTEE ON TECHNICAL ASSISTANCE PROGRAMS

After 2 years of hearings and study, the Subcommittee on Technical Assistance and Related Programs, headed by Senator Mansfield, reported 2 weeks ago these technical assistance programs have been successful and should be continued.

But, as the Mansfield subcommittee report so well says, to be worthwhile, technical assistance must be followed up by economic assistance to the under-

developed areas of the world. The report states at page 25:

"The object of technical assistance is economic development. The attainment of this object requires things besides technical assistance. One of these things is the indigenous urge to develop. The United States can have only marginal, if any, influence on this point. But if the local climate for democratic economic development is right, and if technical assistance is available, then it seems to the subcommittee shortsighted to gamble with the failure of the whole enterprise for lack of economic assistance. Technical assistance can be extremely expensive if it is less than fully effective for lack of accompanying capital investment. In the cases where both economic assistance and technical

assistance are necessary, the United States should either supply both or neither.

Halfway measures are frequently worse than none."

The subcommittee does not say that technical assistance should always be accompanied or followed by economic assistance. When needed, the committee report states: "\* \* \* capital investment can be supplied by private business, by international lending agencies, or in some instances by capital within the country receiving technical aid. Further, there are varying degrees of urgency and also of absorptive capacity."

But the report does recognize the need for grant aid, though it says that this type of aid is not always the form of economic assistance that should be given. Frequently long-term, low-interest loans will do the job. Only rare cases require aid in the form of grants, the report contends. We believe that, although grants are not always needed, the need is more frequent than the report suggests. In any event, the need for economic assistance does require variable combinations of long-term, low-interest loans and grants to build the undergirders for economic development.

Unless we are prepared now to follow up technical assistance with economic assistance both bilaterally and, in rapidly increasing degrees through various international and regional agencies within and supplementing the U. N., we can easily lose freedom's entire previous investment in the Marshall plan, technical assistance and the predominantly military mutual security program now before your committee for renewal, revision, and, as we hope, expansion.

# UAW'S TESTIMONY

As we will set forth in our testimony today, we believe there is much room for improvement in the proposed Mutual Security Act of 1956, but I wish to make clear that we support its prompt enactment. In quarters unsympathetic to this legislation it has been suggested that further study by the Congress is necessary before new foreign aid appropriations can be approved. Of course continuing study and review of our foreign aid program are desirable, but study must not be a substitute for action.

Our statement is in six parts.

1. The international facts of life as we see them.

2. How, considering these facts, we should revise our aid programs to

emphasize aid where it can be most useful.

3. The inseparable relationship between local political realities and the character of foreign aid, economic or military or both, which may or may not be appropriate to a given situation.

4. The wisdom of channeling increasing economic aid through the United

Nations.

5. The need for programs to train American technical task forces to go abroad and to aid the training of skilled technical manpower from other

countries essential in economic development.

6. Putting vast stores of our surplus agricultural products into our foreign aid program in ways that will help feed and clothe the world's ill-fed and ill-clothed millions without making more enemies than friends and will treat foods and fibers as productive capital in economically underdeveloped countries.

#### I. THE INTERNATIONAL FACTS OF LIFE AS WE SEE THEM

We are losing touch with reality in the world if we believe that freedom's fight will be won primarily with guns. While we believe in the principle of collective security, while we have supported our defense systems and will continue to do so when they square with political realities, we do not believe that military preparedness can ever be more than the negative aspect of a dynamic American realier.

policy.

In considering our foreign aid program it helps to begin with a look at the real forces at work in the world. We must not be afraid to face the facts, however much they may differ from our preconceptions. Only insofar as we look the facts squarely in the face can we achieve victory in the competition between democracy and totalitarianism in the world. Unless anti-Communist slogans or tough anti-Communist talk are accompanied by performance and effective anti-Communist results, they mean no more in the long run than a speech in an empty rain barrel. Actually, the end result is disillusionment and is worse than mere futility.

Trade unions' battle against Communists

We in trade unions have battled against Communists in our economic struggles. It is because we delivered the goods that the Communist manipulators

in the labor movement were outvoted and defeated.

The labor movement, which by its very nature deals with everyday human problems, understands out of its own experience that the struggle against communism is a positive struggle. We know that the anti-Communist talk of the moment does not count half so much as anti-Communist economic and social action and results. The democratic propaganda of the deed can always beat the Communist propaganda of the word.

What are the real forces at work in the world today? Does world communism move on its own momentum or is it riding the back of a bigger force, using

that force for its own purpose of imperialistic expansion and conquest?

Rise of world's economically less developed nations

The major fact of international life is the rise of the economically less developed nations of the world. Hundreds of millions of so-called uncommitted peoples of Asia, Africa, the Middle East, and many in Latin America are determined to develop their own natural resources and to industrialize their economies. One way or another, they are now determined to raise their standards of living and to live with the economically developed nations of the West on equal terms in this atomic age. To that they are totally and irrevocably committed.

In the face of this reality, it is unfortunate that the legislation that is before this committee authorizes out of a total \$4,859,975,000, about 86 percent for military aid and defense support. Had the President of the United States asked the Congress to allocate so large a sum to make possible our support of the cause of freedom by economic aid and cooperation, in addition to adequate military aid,

we would be further along in the winning of the peace.

# U.S. S. R.'s offer of economic cooperation

The Soviet Union with its new programs of economic penetration in the economically less developed regions of the world does not stipulate that economic aid be earmarked for military purposes. It is offering economic cooperation on easy terms. Some say this is but a passing strategy and that the Russians will not in the long run deliver on their promises. But it would be foolish for us to gamble our own future security in many of the strategically critical areas of the world on the assumption that the Soviet Union will not deliver on its promises. In the meantime, the contest between the free world and totalitarianism might be lost.

We must face the fact that, unless the United States demonstrates by deeds our sincere desire to help the economically less developed nations, the pressure to

give totalitarian methods a trial will prove irresistible.

During the 1920's and 1930's, the Soviet regime demonstrated—and Asian and African Nations were watching the experiment—that an illiterate, economically backward country could quickly force industrialization. The Soviet experiment demanded ruthless repression, a reign of terror and a contemptuous disregard for every human value as savings were exacted from a people with an already extremely low living standard. But the industrialization targets were attained. More recently the efforts of Red China to move in the same path have attracted the watchful attention of all Asia.

#### The struggle for men's minds

We believe that the struggle between freedom and tyranny in the world is essentially a struggle for men's minds, and their hearts and their loyalties. We believe further that such a struggle cannot be won with military power but rather by a positive peacetime program of economic and social construction that meets the needs and the demands of millions and millions of underprivileged people, and helps them to help themselves in realizing their hopes and aspirations. We say, particularly, that freedom's struggle in Asia will be won primarily in the rice fields, not in the battlefields. American foreign policy to be effective must reflect these economic and political facts of life.

#### Significance of poverty in Asia

When I was in India I came to realize for the first time what a living reality the daily struggle for survival is. I realized what many before me have said, that you canont read in a book about poverty in Asia and grasp its full significance. You must see human poverty in its ugly naked form before you can feel it. This

is not a matter of understanding it intellectually. Rather it is a matter of feeling it in your heart as a human being. When you go to a place like India, then only do you realize the continuous eternal struggle that goes on to hold body and soul together from day to day. Then only can you begin to understand what a tragedy it is when the message of America to these people, as they hear and understand it, becomes massive retaliation and in their eyes the H-bomb is our symbol.

I saw little girls under 6 with their mother, who had a 6-month-old baby on her back, in a field, digging potatoes. When I came by this field it was the fourth time that they had dug the potato crop in that field. This was the same crop, not a new crop, and the first time they went through they had received only a very small percentage of the crop for their labor. The second time when they went over the same ground again to find those that they had missed the first time, they got a little higher percentage, and the third time a still higher percentage. The fourth time they could keep everything they found. You should have seen these little children, finding little potatoes no bigger than a pea or than the end of my little finger, putting them in a basket because that little potato is the difference to them between starvation and life.

In a world in which nearly 1 billion people live as the "have nots," reliance on military power is more and more out of step with the forces that actually

move the world today.

# Using our tools of economic abundance

For the first time in human history, the abolition of poverty throughout the world appears possible within the space of a few generations. We live in the most challenging period in human history, for the same scientific and technical know-how that gives us the H-bomb and the weapons of total self-destruction also provides us with the tools of economic abundance.

If we have the good sense to use these new tools of economic abundance constructively to satisfy man's needs, we can usher in an unprecedented period of human progress and human betterment. Our challenge is to discover a way to translate the promise of the new technology into massive retaliation against poverty, hunger, and social injustice in the world. As we defeat these enemies of man's life and dignity we shall destroy the elements out of which Communist imperialism forges power for conquest either by smiling salesmanship or aggression.

#### Danger of overemphasis on military preparedness

Our overemphasis on military preparedness not only diverts our foreign-aid funds from the battle against the real enemies—poverty, hunger, disease, and economic despair—but also misleads us and diverts us away from the basic issues that determine the relationship between the United States and the newly independent nations of Asia.

#### Asians see world from perspective of own experience

So preoccupied are we with the systems of collective security which we have established, that to Asians we appear blind to the issues which preoccupy them. Understandably, we see the world in the perspective of our own experience, but we must always remember that Asians see the world from Asia, in the perspective of experience which they have felt themselves.

Many Asians were in the final phase of their struggle for political independence when we were demobilizing 15 million men and reducing our Armed Forces

at the end of World War II.

When the Russian dictatorship rejected the Baruch-Lilienthal proposal for a system of universal atomic control and inspection, thereby triggering the nuclear arms race, when the Soviets, with 200 divisions still under arms, raped Czechoslovakian democracy, and when America had still not rearmed, newly free Asian nations were embarking upon their programs of national construction. To them, the world ideological struggle was far away. They had their newly won independence and with it new and compelling problems and responsibilities.

#### Western colonialism

It is not surprising that nations born in a struggle against colonial domination should view the nations of the West with continuing suspicion, watching constantly lest the return of the West, whether in economic, military, or political form, should infringe upon their newly won independence.

While we have been preoccupied with Communist expansionism, these nations have watched with profound distrust the reluctance of European powers to yield

domination over non-European peoples. The United States, too, has been on trial in the eyes of these people. As the strongest Western nation, we inescapably bear a heavy share of blame for the behavior of other Western nations unless we specifically dissociate ourselves from our European friends when they are in the wrong, say so, and try directly and through the U. N. to persuade them that history's clock has struck 12 for colonialism in any and all forms.

For example, we now suffer great humiliation in Asia as allies of Portuguese colonialism. We had not taken a direct stand on the merits of the continued colonial presence of the Portuguese in Goa, near Bombay, until last December when our Secretary of State characterized Goa as a province of Portugal, perhaps speaking literally out of Portuguese law books but creating a situation that went

from bad to worse.

John Cowles, publisher of the Minneapolis Star and Tribune, declared after a

recent tour of South Asia:

"Most Americans have no comprehension of the psychological importance throughout Asia of the phrase 'Western colonialism.' It is of supreme importance that the American Government try in every possible way to dissociate itself from all aspects of colonialism. For example, official statements that can be interpreted, no matter how erroneously, as implying American approval of continued Portuguese occupation of Goa and other enclaves on the Indian subcontinent do the free world incalculable harm."

My personal experience in India completely confirms and supports this

statement.

Until 5 years ago even the Portuguese themselves referred to their Indian holdings as colonies under the Colonial Act of 1933. It was only in 1951, when the Goan issue had arisen, that the Portuguese Government began to list possessions in India as an overseas province under the provisions of the over-

seas organic law of Portugal.

As the matter stands, we have become committed, whether with the original intent to become so committed or not, to a policy which appears completely inconsistent in Asia. Asians are very disturbed about the Goan incident, small as it may seem at this distance, and, because we have carried our collective security commitments to India's very door in our military assistance to Pakistan, we appear to them to be making a deliberate defense of colonialism. In so doing, we become heirs to all the guilt that the Indians place upon the shoulders of the British for their colonial sins—sins which we have never committed, as Secretary Dulles has pointed out in reference to the Philippines, and from which we must, as Mr. Cowles has urged, "try in every possible way to dissociate ourselves."

Our humiliation in the Goa issue affects not only our relations with the Government of India but resounds throughout Asia, Africa, and the Middle East, where the word "colonialism" is a symbol of the Western World's economic exploitation and political domination over other peoples in Asia, Africa, and

Latin America.

I am sure we will agree that the attitude recently expressed by the Prime Minister of Portugal in connection with the Goan dispute reflects a view of the world that is several hundred years out of date. In an article in the current issue of Foreign Affairs quarterly, Mr. Oliveira Salazar, Prime Minister of Portugal, makes an outright defense of colonialism. He states that:

"When it is conscious of its mission the colonizing country ensures peace, is responsible for maintaining order, organizes life, and, as has been seen, even

leads them to become worthy of independence."

He underscores his outright defense of indefinite colonialism when he states that, "Africa lives and must continue for an unforeseeable time to live under

the control and guidance of a civilized state."

The plain fact is that the United States has, in the eyes of the 1 billion or more people to whom colonialism is a vital issue, become suspect, and, in the view of some, already condemned. Even a casual reading of representative newspapers throughout Asia, Africa, and the Middle East would bear out that we are getting the reputation of a defender of colonialism.

Had we continued to maintain our neutrality in matters such as the Indian dispute with Portugal over Goa, it is doubtful that we could have escaped such blame altogether. Neutrality on the issue of colonialism is a position wholly

contrary to American experience and tradition.

Now that we have for all practical purposes lined up on the Portuguese side, I believe earnestly that we should confess our error. By so doing we will gain

far more respect than if we continue to sink deeper and deeper into a totally indefensible position.

We must not allow our military relationship with Portugal in Europe to distort our policy in Asia, just as in all our commitments to friendly European powers we must dissociate ourselves from support of continued colonialism.

It is not an answer to say that the new colonialism of the Soviets is in fact a greater present threat to free peoples than the dying European colonialism. Here again we must be realistic. The reality is that Asians remember Western colonialism vividly. They have not experienced Communist domination and its even more ruthless exploitation and repression.

II. HOW WE SHOULD REVISE OUR AID PROGRAMS TO EMPHASIZE AID WHERE IT CAN BE MOST USEFUL

It is precisely because we are distrusted that genuine economic aid and cooperation is so vital a force for peace. It demonstrates our desire to rectify the economic imbalance in the world that is symbolized by colonialism. The American economy is freedom's greatest asset and, if fully utilized in cooperation with other industrialized "have" nations, is equal to the challenge of raising our own living standards at home while helping others to raise theirs.

Much of what I came here to say has been well said and documented in the excellent report of the Mansfield subcommittee. It is unfortunate that the press and radio for the most part limited their accounts to the last few pages of the report.

Disparity in wealth between United States and underdeveloped countries is increasing

It is vitally important to get to the American people the fact, pointed out by the report, that the great disparity in wealth between the United States and the underdeveloped countries is increasing. The national income of the United States in 1955 was \$322 billion, having increased from \$303.6 billion in 1953. The national income of India in 1953 was \$23 billion. In that year 167 million Americans shared our national income of \$303.6 billion, while 370 million Indians shared their national income of \$23 billion.

To reduce these overall figures to more understandable human terms, we need to realize that through heroic effort the people of India have, during the past 3 years, raised their per capita income from \$50 per individual to \$56 per individual. Despite this improvement, approximately 70 million people still have an income of \$20 or less per year. Even the costly Aswan Dam, which will absorb most of Egypt's available resources for as long as 10 years, will not do more than halt the decline in Egyptian per capita gross national product.

Somehow the American people must be given the subcommittee's statement that it "has grave doubts as to how long economic growth can be sustained in the United States if the rest of the world continues to fall further and further behind. In connection with the advancement of our own prosperity, the prosperity of others is an important factor."

Prosperity, like peace, in the long run, is indivisible.

Distinction between anti-Communist and pro-American measures

The subcommittee wisely makes a distinction between a measure which is anti-Communist and one which may be pro-American, stressing the fact that a measure is anti-Communist does not necessarily make it pro-American. The

subcommittee states that:

"The American national interest has too often been viewed as the reciprocal of the Communist interest, and from this it has been reasoned that anything which was anti-Communist was ipso facto pro-American. The subcommittee prefers to proceed from the converse of this assumption, namely, that anything that is pro-American is ipso facto anti-Communist. If the United States carries out programs which will positively advance the American national interest, without regard to their anti-Communist content, the anti-Communist results, although secondary, are likely to be even stronger than if the programs were specifically anti-Communist in the first place."

The subcommittee quotes with approval the statement made at a press conference by John Sherman Cooper, American Ambassador to India, that "The problem is not simply to counter the Russians. We were there first. We should develop our own program and stick with it and give assurance

of some continuity."

False ideas of economy must not govern our policy

We must not allow false ideas of economy to govern our policy. For example, it is disturbing to read the colloquy between Senator Capehart and Mr. John B. Hollister, the Administrator of the International Cooperation Administration, on January 23, 1956, before the Subcommittee on Technical Assistance Programs.

Mr. Hollister told Senator Capehart that he has to say "No" a great deal of the time to programs that he conceded were attractive. He indicated that he rejected many of these programs on grounds that can only be described as false economy practiced at a time when our national interests are

at stake.

Mr. Hollister declared:

"If the individual countries' requests and the approvals of those requests by the country team and the way in which they are considered by the desk people, the regional people, were all added together in one sum, it would be substantially more than is being requested now. Someone has to say 'No' and unfortunately, every program is attractive" (pp. 34-36, official transcript).

These are the programs that we need to know about and look at. Perhaps

they will add up to \$4.8 billion. If so, if they are good, let's have them. It seems to me that Mr. Hollister is seeking to blindfold Congress if he does not make available the nature of the programs, admittedly attractive, which he has rejected in an attempt to guess in advance how much Congress will vote for.

We urge your committee to get those attractive programs that have been rejected and suppressed, examine them, and, if they are attractive authorize the funds needed to put them to work. Foreign economic programs must be conceived in the knowledge that America's problem is one of national sur-We must and can afford the cost of waging the vival, not national solvency. peace.

You may ask whether we assume too readily that the American people will respond to the extensive economic aid which we advocate. We believe the American people have the will and the sense of moral obligation to take the price tag off our efforts at waging the peace, but that unfortunately we are

too timid in exercising the leadership that the situation demands.

We believe the American people will respond if the needs are properly spelled out, and we believe further that a great responsibility rests on this committee to spell out clearly the challenge to the Nation. They responded in 1933 when we were told we had nothing to fear but fear itself and again after Pearl Harbor when our sights were set at production goals ridiculed by those who would have preferred to fight a slow war. They responded to the challenge of the Marshall plan, the rolling back of Communist aggression in Korea, the Berlin airlift. They will respond now to a bold program of international economic cooperation adequate in size, scope, speed, and method to meet the needs of the people of more than half the world for full partnership in the second half of the 20th century.

# Bulk of foreign aid goes to military purposes

We find that actually, as the members of this committee know and as the Mansfield subcommittee report points out, the bulk of our foreign aid at the present time goes to military purposes. Most of what we now spend under that name of economic aid is going to Formosa, South Korea, south Indochina, and other areas directly affected by military operations, both for the direct and indirect support of military forces. An increasing share of our expenditures described as economic aid goes to so-called defense support projects whose purpose is primarily military.

Thailand, for example, has openly complained that more money should be going to decent housing instead of to armament. In Thailand, defense support expenditures have risen from \$3,580,000 in 1954 to a projected \$29,500,000 in

In 1956, out of \$479.5 million directed to Indochina, the Philippines, Thailand, and Indonesia, only \$39.5 million or 8.2 percent was allocated for technical assistance.

Although the so-called uncommitted nations are deemed to be of increasing strategic importance, only a tiny fraction of our foreign aid funds are going to the economic development of these unalined nations.

# Helping underdeveloped nations for humanitarian reasons

For humanitarian reasons alone we should help the people of the less economically developed unalined nations of Asia and the world, as a matter of their needs unrelated to the struggle between the forces of freedom and the forces of communism. As a matter of enlightened self-interest our paramount concern in Asia should be to prevent the presently uncommitted nations from passing by default into the Communist orbit. If we face the facts, India with its 370 million people is without question a key factor in that vital third of the world that is uncommitted. We will do well to appraise in realistic terms that will serve the American national interest, the impact of foreign policy throughout the economically less developed world that is unalined.

# Failure of economic aid programs to reflect realities of world situation

It seems to me that in our economic aid programs we have failed to reflect the realities of the world situation with which we must deal if we are to make peace and freedom secure. Our programs have been too little and too late. They have been planned and carried out in a spirit of bargaining. In many cases we enjoyed substantial good will beforehand which this clumsiness has destroyed. Whether or not we have expressly stated it in our aid legislation or in the phraseology of our agreements, we have exhibited too much the attitude that if a country is not for us she is against us.

This is a dangerous oversimplification of the world situation and reflects no understanding of the feelings and the reasons for the feelings of the people of the unalined nations. An understanding in many situations is more important than agreement. The free world must build unity in diversity. It is only the Communists and other totalitarians who insist on conformity as the basis for

unity.

# Similarity of newly independent nations to United States in 1776

The economically less developed nations at the present time call to mind the young and newly independent United States in 1776. We were eager to devote our attention primarily to our own affairs and to avoid what George Washington

called, in his Farewell Address, entangling alliances.

We wanted to escape war, stay unalined, and avoid international involvement just as they do today. In a sense they have even more reason to adopt this policy because they must attain rapid economic progress to overcome a vast disparity between the haves and the have-nots in the world which did not exist in the day of George Washington. This gap, this disparity, fed by automation and atomic energy, widens at an ever faster rate.

Should we carp at these newly independent nations for their avowed desire to remain unalined between a Communist world which is at their very doorstep

and a free world with capitals thousands of miles away?

In its report the Mansfield subcommittee declared:

"The broader national interests of the United States require a growth in the area of human freedom. It is perhaps significant that not since 1812 has the United States found it necessary to fight a war with a country which has standards of freedom comparable to our own. Steps which countries receiving technical assistance take to promote such a growth, either politically or economically, are in the mutual interest of the United States and of the other countries concerned. This seems to the subcommittee the most valuable mutual assistance which can reasonably be expected from most underdeveloped countries—namely, a devotion to their own independence and a determination to work out their own problems. If we expect them to refuse to prostitute themselves to the Soviet Union, we must also expect them to refuse to prostitute themselves to the United States. And we are false to our own traditions if we ask them to do otherwise. A strong, free, and independent Asia is more important to the United States than a collection of weak dependents in the same area."

President Eisenhower in his address on April 21 to the American Society of Newspaper Editors also expressed a viewpoint on the newly independent nations which it is relevant to review here. He declared that these new nations "have many of the sensitivities that marked our own early years as a free nation. They are proud of their independence and quick to resent any slight to their sovereignty. Some of them are concerned to avoid involvements with other nations, as we were for many years. Certainly we Americans should understand and respect these points of view. We must accept the right of each nation to choose its own path to the future." And the President added: "All of these countries are faced with immense obstacles and difficulties. Freedom

and human dignity must rest upon a satisfactory economic base. Yet in many of these new nations, incomes average less than \$100 per year. Abject poverty blinds men's eyes to the beauty of freedom's ideals. Hopelessness makes men prey to any promise of a better existence, even the most false and spurious."

"Foresight will compel an understanding response from us" to the need for

economic assistance from these nations, the President declared.

#### Greater economic aid to less developed countries advocated

We believe that we must give substantially greater economic aid to the struggling governments of the economically less developed countries of Asia, Africa, and Latin America whether or not they choose to fit into our present patterns of military alliances. For example, a line of credit to India should be authorized well above the sum cited in the legislation before this committee. Certainly any reduction of this sum should be vigorously opposed.

We suggest that section 421 of this legislation, beginning on page 9, be broadened in scope to make possible an increase in the \$100 million figure cited on

page 10.

#### Long-term commitments endorsed

We support the long-term commitment specified in this section because it is only with the assurance of continuing economic assistance over a sustained period of time that the recipient nations can integrate our aid into their own economic planning. A long-range commitment removes the overtone that we are bargaining with our aid on a year-to-year basis, depending upon how the recipient countries behave between appropriations. Long-range commitments are made in many other fields, at home and abroad, although it is recognized that no Congress can commit a later Congress.

Line of credit to countries with long-range economic development plans is suggested

In addition to grants to make possible specific development projects in recipient countries, we propose, in keeping with the principle of long-term commitments in section 421, a line of credit to countries which have adopted long-range economic development plans. Again, for example, in the case of India, I suggest a line of credit, through an international agency or, if necessary, directly, of at least \$1 billion, payable at the rate of about \$200 million annually, to help India with its new 5-year plan. There is every indication that Indian development programs can absorb this much assistance at the very minimum. Here is a specific opportunity to advance a substantial credit over and above outright grants.

On April 1, India launched her second 5-year plan with all but \$2.3 billion of the \$12.5 billion outlay for this second Indian plan to be invested by India from her own resources.

In America, free enterprise in 1955, which invested approximately \$40 billion in expansion, obviously can meet the task of economic expansion and development; but in India where the national income is extremely low, there are no such adequate pools of private capital. The only way needed capital for expansion and industry can be raised is through Government channels. This is a matter of practical economics, not of ideology. India must choose between the expansion of the public sector of its economy as the means of economic development or being denied the necessary economic growth if it relies exclusively upon private capital for financing. It faces the further alternative of obtaining foreign loans or resorting to totalitarian methods to push down an already incredibly low standard of living so as to exact from a hungry people the forced savings necessary for national development.

Unfortunately our refusal to recognize the limited applicability of our privateenterprise system in the economically less developed countries has already cost us dearly and has opened the way to Soviet economic penetration.

# Soviet Union's successful invasion of Indian economic scene

Look at the history behind the Soviet Union's successful invasion of the Indian economic scene with its offer to construct a steel plant at Bhilai in central India.

The United States had opportunity to participate in the development of the Indian steel industry. In 1949 the Government of India engaged Koppers and another American firm to explore the possibilities of steel industrial expansion in India and in 1952 India launched the first of a series of efforts to interest American firms in investment in India.

At that time American firms offered to sell plants and services but not to invest capital.

A subsequent attempt was made to interest a Japanese-American combine with the cooperation of the World Bank but for a variety of reasons this plan

also fell through.

In still another attempt which has demonstrated the inability of private foreign capital to tackle India's development challenge, a private Indian industrialist approached British and American interests but could not induce sufficient private capital to go into the undertaking. As this proposal took final form, it envisaged a financial structure in which 40 percent was to be borrowed from foreign banking sources, 10 percent to be contributed by private investors, and the remainder to be made up by the Government of India.

The Indian Government decided that, if this be private enterprise then another, more stable pattern would have to be found to expand the steel industry in India. Therefore, in 1954 a decision was made to make the expansion of the steel industry a responsibility of the so-called public sector of India's mixed economy. Private foreign firms were invited to join in this expansion under the general

control of the Indian Government.

Private enterprise in the United States, as well as the World Bank, took pains to demonstrate its displeasure with this decision despite the history of the Government's attempts to achieve its goals within the scope of private investment.

In the summer of 1954, 5 years after the first approach to American free enterprise, the Soviet Union made its first informal offer to assist India in steel industry expansion. By the time Bulganin and Khrushchev visited India the Soviets had made their terms clear. These were 2½ percent interest rates repayable in 12 years, with all equipment as a loan, and the Government of India given complete authority and responsibility over Russian technicians who would implement their responsibilities under the Indian Government's Iron and Steel Ministry.

# Great Britain's and Germany's economic cooperation with India

Neither private capital in Great Britain nor in Germany permitted the fighting of ideological windmills to stand in the way of practical economic cooperation with India in meeting its pressing economic needs. The Krupp and DEMAG interests of Germany are constructing the Rourkela plant, and British capital is financing the construction of the Durgapur plant. These two plants together with the Russian plant will bring India's capacity to 4.68 million tons by 1960.

with the Russian plant will bring India's capacity to 4.68 million tons by 1960. In addition, the Government of India is assisting the private sector of the steel industry to expand its productive capacity, and by the end of the second 5-year plan India's total steel capacity should approximate 6 million tons, of which 3 million will be produced in the public sector and 3 million tons in the private sector. The Tata Iron & Steel Works, the largest free-enterprise group in India, which is expanding to double its present capacity, has engaged the Henry J. Kaiser & Co. as consultants.

While German, British, and Russian prices have been remarkably close, Indian steel authorities maintain that American prices have been beyond their

reach, 25 to 35 percent higher.

Under the Indo-German agreement, one-fifth of all actual orders would be treated as investment under a "loan investment" relationship.

#### Soviet economic penetration in India can be minimized

Under the Indian-Soviet Union steel agreement, 131 out of a projected total of 686 Indian technicians who will work in the Soviet-constructed plant have gone to the Soviet Union for training. You may be sure that Soviet "training" will not be limited to engineering subjects but will include efforts to indoctrinate political and economic ideas.

This Soviet economic penetration in India can be minimized if we take a realistic view of the role of government enterprise in an underdeveloped economy.

It is too bad that we have not done so to date.

We should be ready to assist India's industrial expansion through direct government-to-government economic assistance regardless of the fact that Indian economic development depends to a great extent upon government economic enterprise.

Private capital in Great Britain and in Germany is no less pro free enterprise than American private capital. They are, however, more realistic and what is needed in this situation is more realism and less tilting at ideological windmills.

Moreover, we and other free nations must be prepared to accept in our own industries Indian technical personnel so that the Soviet Union does not gain a monopoly on the technical training of young Indians. This vital phase is dealt

with in another section of our statement.

The Russian economic offensive in the economically less developed world poses a great challenge to us. I have here catalogs now circulating in India which I have brought back from a permanent industrial exhibit and salesroom in Bombay where the latest Soviet industrial machinery may be seen and purchased. This is effective propaganda. I saw the machinery with my own eyes and it reflects an advanced level of modern technology.

If we do not face this challenge, the Soviet Union will play an increasingly important economic role in India and in other presently less developed countries,

Soviet buildup of line of credit in India

Reliable American observers in India estimate that by 1959 the Soviet Union will have built up a \$300 million to \$500 million line of credit in New Delhi. Five years ago there was no such Indo-Soviet economic cooperation. Now is the time for the free world, in which we are the leading power, to act promptly to provide adequate alternatives to Soviet economic penetration. We do not mean to suggest that we should expect these independent countries to cut off their economic ties with the Communist world. Peaceful competitive coexistence is a fact. To meet the challenge of this competitive coexistence, we must join in the competition with all the resources at our command. Time is running fast. We cannot afford postponement, even for budget-balancing or tax cuts in a domestic political campaign year. The political economics of the world will not stand still and wait until our next election and the actions of the 85th Congress.

# III. THE RELATIONSHIP BETWEEN LOCAL POLITICAL REALITIES AND THE CHARACTER OF FOREIGN AID

At the outset I said I would discuss the inseparable relationsip between local political realities and the character of foreign aid, economic or military or both, which may or may not be appropriate to a given situation.

It is futile to view aid as a self-contained factor in our foreign policy. First and foremost in any area, the United States must have a realistic overall political policy. As a result of my recent visit to South Asia, I am convinced that we have allowed an overemphasis on collective security systems to blind us to political reality there. I believe it is in our national interest to maintain friendly relations with both India and Pakistan. There is no valid reason why we should embroil ourselves in their disputes.

Difficulties resulting from United States-Pakistan military pact

Until May 19, 1954, when we signed a mutual security pact with Pakistan over the protests of two friendly nations, India and Afghanistan, the United States was slowly improving its relations with India and Pakistan—both equally suspicious of the West as a result of a common heritage of colonial domination. As a result of our military pact with Pakistan, we have made more difficult the continued improvement of our relations with both countries.

To grasp the scope of our blunder it is necessary to accept south Asia's major political fact of life: Indians and Pakistanis alike are more preoccupied with each other than with the threat of Communist aggression. We might like this fact to disappear, but it will not. Others see the world from the perspective

of their experience, not ours.

Only 9 years ago many hundreds of thousands of Hindus and Moslems lost

their lives in riots preceding the formation of Pakistan.

Despite the 2-way migration of 10 million men, women, and children across new frontiers, the Hindu-Moslem problem still dominates the south Asian political landscape. Forty million Moslems live in "Hindu" India—more than the entire population of West Pakistan, and more than half of all of Pakistan's 75 million population. Ten million Hindus live in Pakistan. Therefore it is not a simple matter of "Hindu India" versus "Moslem Pakistan."

It was burned into my mind, even in the brief visit I was able to make, that in both India and Pakistan the scars of 1947 are far from healed. Tension is growing steadily, aggravated by the very extremist forces in both countries

responsible for the excesses which accompanied partition.

In Pakistan Moslem extremists say that with enough arms they can start "Jehad" or "Holy War," while in India, Hindu extremists point to our aid to

Pakistan and say, "You see, in a year or two the Pakistan Army will be stronger than ours. We must get tough with them now before they start anything, or

they will dominate us as the Moguls did for 500 years."

This, of course, is a windfall for the Indian Communists, who can fan the fires of anti-Moslem feeling right at Uncle Sam. It is most saddening as an American to discover that for all our devotion to peace, we are, in the eyes of India's millions, cast in the role of a protagonist of one party, unwittingly involved in religious hatreds.

There is no question that to the Hindu man in the street in India the United States now appears as a hostile power, ranged alongside his Moslem rival. We have smokescreened the Soviet threat right out of the Indian consciousness. While I sensed no trace of hostility to myself as an individual American, I was asked anxiously over and over why Secretary Dulles, at the March SEATO session in Karachi, chose to introduce the Kashmir issue when it has nothing to do with Communist aggression. To the Indians this was only another instance proving that the United States-Pakistan military pact is a deliberate combination against India.

While the American people complacently view this pact as a deterrent to Communist aggression, the Pakistanis frankly call it a potential weapon against India. Even before the pact was signed, John Callahan, New York Times correspondent in Pakistan, wrote on November 21, 1953, that "Pakistan is more inclined to build her military strength as a bargaining factor in dealing with India on the Kashmir issue than as a defense against other countries, including

This is a common admission, privately expressed." the Soviet Union.

Recently, the very day that the SEATO Conference opened, Dawn of Karachi, Pakistan's leading newspaper and regarded as the voice of the Government, declared that "the big powers cannot have it all their own way and expect the smaller powers to strengthen their hands against their own enemies while ignoring the dangers which threaten the smaller powers from other quarters. For instance, if there is any threat of physical aggression to Pakistan, it does not come primarily from the Soviet Union but from India."

When the Indians hear this kind of talk from Pakistan, as they do repeatedly, and when our own Secretary of State introduces the Kashmir question on the SEATO agenda at the same time that we advertise the SEATO pact as an anti-Communist alliance, what can we expect the Indians to deduce? Some think we are naive, others that we are willfully practicing deceit, still others that we

have deliberately decided to "write India off."

In this age of the guided missile, the intercontinental jet bomber, and the Hbomb, what kind of military logic justifies the heavy political price that we are paying for this alliance? Hanson Baldwin, New York Times military analyst, while supporting the decision to arm Pakistan on December 20, 1953, declared that "neither Indian nor Pakistan airbases are essential (though both would be desirable, particularly the latter) to our global air strategy."

Relationship of military aid to Pakistan to growing Soviet influence in Afghan-

In New Delhi I heard disturbing reports that indicate how seriously, it seems to me, we have misread the overall political and strategic situation on the continent of Asia. Until we entered the picture, India, Pakistan, and Afghanistan were living in a balance. I do not pretend to understand all the complexities of south Asia's internal disputes, but I am satisfied that our military assistance to Pakistan has been, at the very least, partially responsible for the growing Soviet influence in Afghanistan. The \$100 million Soviet aid program in this landlocked fastness wields influence entirely out of proportion to the sum.

Has our military aid to Pakistan strengthened the security interests of the United States and the rest of the free world in south Asia? It has strengthened the momentary security interests of Pakistan, but by pushing Afghanistan closer to its Soviet neighbor and by damaging our relations with India, it has clearly

undermined our own interests in the entire region.

At a time when both India and Pakistan want most of all to step up the tempo of their economic development, we have made military aid the biggest portion of our aid to Pakistan, and as a consequence India has increased the military expenditures in its Central Government budget by \$40 million annually since 1954.

Effect of United States policy in Asia on India-Communist China economic competition

We can admire the passion for independence which moves India to spend its economic development resources on military needs rather than harken to the

siren song of the Soviet Union, which repeatedly offers to meet India's military requirements at bargain basement prices. Fundamentally, however, we are witnessing tragedy, for India's democracy is in a grim race with the Chinese Communist dictatorship to demonstrate tangible economic progress. It may seem incredible, but United States policy in Asia is hampering India in this race by forcing military expansion at the expense of economic development, canceling out the effect even of some of our own funds granted for economic aid.

## Losing India's friendship

Surprisingly the administration committed the United States to a military assistance pact with Pakistan without referring so fundamental a decision to the Congress. It was a member of this committee, Senator Fulbright, who warned the Senate on March 2, 1954, that "when the investigating committees or historians of the future are trying to ascertain why we lost the friendship of India. I want it to be perfectly clear where the responsibility should be placed.

# Contemplated tour to Red China of Pakistan's Prime Minister

Nor is there assurance that Pakistan itself will remain an ally. The Prime Minister of Pakistan is setting off June 2 on a tour of Red China. The announcement of this has attracted surprisingly little attention in the United States press. in contrast to the uproar over the Indian Prime Minister's trips to Communist While hostile to each other, the Indians and Pakistanis share almost the same outlook toward the rest of the world, and, as John Cowles reported after a recent south Asian tour, "Even Pakistan is beginning to weigh the relative value of its military pact with the United States in comparison with the benefits it might get from Russia and China if it 'went neutral.'"

## United States-Pakistan military pact should be reevaluated

The first essential step to put our south Asian economic-aid program on a sound political footing is to establish our impartiality in the internal disputes between India and Pakistan. At present the major beneficiaries of our militarydominated south Asian policy are the Soviet Union and Red China.

We should immediately restudy our military alliance with Pakistan, freezing this relationship for the present at the level of minimum existing commitments. Obviously, we must fulfill commitments already made, and for which machinery has already been set in motion. But we should avoid extending our commitments until we have reevaluated this pact.

# SEATO and Baghdad pact should be reevaluated

Since West Pakistan adjoins the Baghdad or northern tier alliance and East Pakistan is integral to the Southeast Asia Treaty Organization, in reevaluating our relationship with Pakistan we must also reevaluate these collective security systems at the same time, placing political and economic realities alongside military considerations.

#### IV. THE WISDOM OF CHANNELING INCREASING ECONOMIC AID THROUGH THE UNITED NATIONS

Other witnesses have discussed or will discuss the need for and the possibilities of economic assistance to be made available by private capital and by various national and international lending agencies such as the World Bank, the Export-Import Bank and the International Finance Corporation.

We believe that all of these agencies, private and public, can and should be encouraged to do as much as possible as quickly as possible.

# United States veto against SUNFED should be lifted

But in addition to these agencies and our own bilateral assistance, we have long believed that the United States should lift its longstanding veto against SUNFED (Special United Nations Fund for Economic Development).

Supported now by this Congress and this administration SUNFED can avert a second creeping Pearl Harbor, accompanied this time by totalitarian charm and democratic apathy.
What is SUNFED: Why should it have top priority?

#### 1954 Schewen report

"Neither private capital nor existing international agencies can insure the financing of non-self-liquidating investments," the 1954 Scheyven report to the U. N. pointed out, suggesting that the U. N. should give systematic consideration not only to the essential parts of a development program, but to the sequence. It offered this definition of the problem and of SUNFED's role in meeting it:

"Any program of economic development, of necessity, contains a proportion of low-yielding and slow-yielding projects which yet are essential preconditions for

the high-yielding and rapid-yielding projects.

"Such basic projects \* \* \* include investments necessary for the promotion of health, education, and housing—the human or social overhead capital—and of transport, communications, power, and other public utilities—the economic overhead capital. These projects provide little or no yield in foreign exchange, usually furnish low yields in the short run, and also generally require a considerable period of time before their yield can be realized in financial terms because their benefits are derived from the more balanced development of the economic activities which utilize their services."

Continuing, the report explains the strange new word "infrastructure," pointing out that, unless this infrastructure is built, healthy development is impossible:

"If economic progress is to take place at an adequate rate there must be a complex of investments to form what is known as the 'economic and social infrastructure' of a country. The importance of this infrastructure is plain.

"Roads, railways, canals, port installations, and sources of power create opportunities for business enterprise; clearing, irrigation, and drainage make more

land available for tillage.

"Schools train the labor force and universities the leaders.

"Hospitals foster the improvement of health and hygiene.

"When the state has sufficient resources at its disposal it usually provides these services and finances these public institutions."

The report was careful to state that the expression "non-self-liquidating investments" is an accurate financial term in the sense that they do not produce revenue for the payment of interest and principal, but that "from the general economic standpoint, all infrastructure investments, whether social or economic, may be regarded as directly or indirectly self-liquidating, since they all contribute to the short-term or long-term development of the economy."

Because the "infrastructure" is essential to development and because development replaces present vicious downward spirals, the ratio of "infrastructure" investment to overall investment can be expected to decline; likewise, the share of investment needed from sources outside the developing country can be ex-

pected to shrink.

"Infrastructure investment is necessary in every economy, varying according to the state of development of the economy concerned. Thus, experts consider that in the development of an underdeveloped territory, 60 percent of overall investment must be devoted to the infrastructure during the initial stage, whereas in industrialized countries, where the purpose of such investment is merely to maintain, adapt and supplement the existing infrastructure, the proportion is roughly the reverse."

In 1955, the Scheyven committee revised the SUNFED plan to permit a com-

bination of grants and loans by other international agencies.

#### Safeguards in SUNFED

Although Nation's Business, organ of the United States Chamber of Commerce, in October 1953 denounced SUNFED as "your name on a blank check," the fact is that SUNFED's organizational structure would protect the United States and other "have" nations against raiding of the fund by "have not" nations. Here are its four safeguards:

(1) Membership is on a year-to-year basis, annually renewable or re-

vocable:

(2) The main contributors to the fund would have half the 8 or 12 members of the governing board;

(3) A board member from a country applying for aid would not partici-

pate in action on that application;

(4) The Director would cast the deciding vote in the event of a tie (and the U. S. A. as the heaviest contributor in all probability would name the Director).

In practice, these safeguards would be effective insurance against the use of blank checks.

# Observations in Scheyven report

Economic development must be accompanied by courageous and intelligent policies that will bring about abandonment of prejudices and archaic customs,

adaptations of social and legal institutions, elimination of social and economic

discriminations, support for fair and adequate tax systems.

These complex and delicate matters, the report points out, require introduction of "structural reforms, while maintaining full respect for the sovereignty of the underdeveloped countries."

This point is so important that the Scheyven report's observations are worth

quoting verbatim:

"While external aid is necessary, it can never play more than a supporting role. The introduction of capital goods and the presence of technicians are indeed essential, but are not sufficient in themselves to bring about progress. Economic development is not imported 'prefabricated' from abroad, but is achieved on the spot by dint of a courageous and intelligent policy.

"In many underdeveloped countries the way to progress must be opened by abandoning ancient prejudices and archaic customs, adapting social and legal institutions, suppressing barriers of caste or race and doing away with political and social privileges which serve the interests of a minority at the expense of

the general welfare. Economic progress is possible only if those in authority

desire it and accept its political and social consequences.

"As part of the necessary financial aid must take the form of grants, the industrialized countries must have recourse to taxation. Before this source of finance can be tapped, the taxpayers must be convinced of the value of the sacrifices asked of them. Their effort must not be compromised by bad political management and the tax they pay must not be a substitute for the taxes that an enormously wealthy ruling class, indifferent to the poverty of its fellow

citizens, might be unwilling to pay.

"It is therefore necessary to introduce structural reforms, while maintaining full respect for the sovereignty of the underdeveloped countries. It might be easier to carry out such structural reforms through an international organization, which is in a better position to spare national susceptibilities. The intervention of any one country in reforms of this nature would be a very difficult matter, as is illustrated by the reactions which have been aroused whenever lending countries have sought to make their investments conditional upon stipulations

which the borrowing countries regarded as infringements of their sovereignty."

How much capital is needed overall? How much for the SUNFED phase?

The \$250 million originally proposed for SUNFED (\$80 million to be contributed by the United States) is a minor part of all the capital required for the development of the underdeveloped countries. The estimated overall need of foreign capital of all kinds is more than \$10 billions a year; \$3 billions of it in grants.

The 1954 Scheyven report gives this summary of expert opinion on the need

for substantial investment of foreign capital:

"United Nations experts have endeavored to estimate the amount of capital which would be required to effect an adequate improvement of the standard of living in the underdeveloped countries. They themselves emphasize that their figures are approximate and are to be regarded as little more than an indication of order of magnitude. Such estimation, moreover, is rendered especially difficult by the necessity of making assumptions and by the inadequacy of statistical information.

"According to their calculations the amount of capital needed each year to raise the national per capita income in underdeveloped areas by 2 percent per annum would be something like \$19 billions. About \$5 billions of this could be provided by domestic savings. A deficit of \$14 billion a year would thus remain

to be met.

"Even bearing in mind that better methods of increasing and utilizing domestic savings could be applied in the underdeveloped countries and that such savings tend to increase as the standard of living rises, the experts estimate that a 2 percent increase in national per capita income is out of the question unless more than \$10 billions of capital, \$3 billions of which would be grants, is imported annually.

"The experts consider this contribution of \$10 billions to be within the capacities of the economically developed countries, for it represents some 2 percent of the national income of the countries of Western Europe, Australia, the

<sup>&</sup>lt;sup>1</sup> Special United Nations Fund for Economic Development, final report by Belgian Banker Raymond Scheyven, prepared in pursuance of General Assembly Resolution 724B (Viii); General Assembly, Official Records; 9th sess. (1954), Supplement No. 19 (9/2728), pp. 15-16.

United States of America and Canada, the total income of which amounts today to some \$500 billions. It should be observed, however, that a transfer of 2 percent of a country's national income represents, in practical terms, a vast operation entailing great financial sacrifice."

Why the United States can afford SUNFED

We can afford SUNFED because we can afford survival. It would have been economical, in terms of money, lives and future security, to have put SUNFED into effect in 1951, when it was first brought before the United Nations.

It can be demonstrated in terms of cold economics that the United States can afford to make its full contribution to SUNFED's \$250 million—or to a much larger fund. But before getting to that, let us briefly reexamine the explosive factors, human and material, that make SUNFED an immediate imperative.

The gaps between the economically advanced countries and the underdeveloped countries are widening, not narrowing. This is because the rate of development is

faster in the already developed countries.

Richer countries' food surpluses, so-called, continue to grow and to overhang

the market.

The difference between action and no action is the difference between SUNFED and UNFED. That may not translate into the many tongues of the more than one-half of the world's people who go to bed hungry every night, but it is, nevertheless, clearly understood. As shown in part VI of this statement, so-called surplus food in the United States of America and other countries may be transformed into working capital to pay a substantial part of the cost of stepped-up industrial development in many countries like India, where a diet of 1,700 calories a day is part of a small average annual income and standard of living.

We can afford to contribute our share of SUNFED's \$250 million—and much more. We have proved we can afford defense expenditures of \$1 billion a week (\$52 billion a year) and at the same time, contribute to SUNFED and invest in other phases of a rounded development program to the extent of billions a

vear

Proposed defense expenditures for 1956-57 are \$36 billions, down \$14 billions

from 1953.

In view of the accelerating pace of competition between Communist exploitation of hunger and our own efforts to eliminate it, what is needed—and quickly—is a clear mandate by the 84th Congress to President Eisenhower, Secretary of State Dulles, ICA Administrator Hollister, Ambassador Lodge, and our delegates

to the U. N. to support SUNFED with words and money, now.

It is foolish to the point of suicide to put off such economic cooperation until after worldwide disarmament is achieved or even until another study is completed. It is precisely during the period of tension when disarmament is blocked that such positive offensives against poverty and hunger are most needed, most valuable, most powerfully effective in working out of the swamps and jungles of fear and war into the light and confidence needed for peace and disarmament.

SUNFED is, indeed, part of the price of world disarmament.

SUNFED is part of a positive peace offensive, a way to get off the dime of military defense and make real for mankind the four freedoms for which

World War II was fought and won.

Recently, two officials of the Eisenhower administration made considered statements which gave great hope to those organizations and individuals who believe SUNFED is a vital and urgent need for the security and survival of the free world.

Excerpt from speech by Assistant Secretary of State Wilcox

Speaking April 10 before the National Conference on Social and Economic

Development, Assistant Secretary of State Francis O. Wilcox said:

"Along with or prior to investments of interest to banks or private individuals, there is need for development projects which are not 'bankable' for a variety of reasons. Irrigation schemes, roads, schools, and hospitals illustrate the point. Without these, further agricultural or industrial development is severely handicapped or impossible. These projects constitute what is commonly known as 'infrastructure.' Although the word is a dreadful one, the things for which it stands represent the very foundations for economic development. It is on the basis of such foundations that there will be infinitely greater scope for private investment and public lending.

"How such funds, whether they be local or external funds, can be made available is a matter of grave concern to all those interested in the development of

sound economics which will not be vulnerable to subversion. Our own Government, along with other governments, is continuously exploring this problem in the hope of finding an adequate answer. Our international system is not a stagnant one. Like other systems and institutions, it must continue to grow and meet ever-changing conditions."

This was great news, even with the "go slow" stipulation that followed:

"In conclusion, I would like to enter a word of general caution to those who would go too far and too fast with the United Nations. The United Nations has great potentialities. Prudently used, it can continue to be an important means for the development of the kind of world we want to live in. But impetuosity and overreaching have their dangers here as elsewhere. Common horsesense and a recognition of what is practical will, in the end, carry us further than attempting too much at once. We do disservice to something we all believe in by running forward and stumbling, instead of walking certainly and surely to our goal."

With the free world's reliance upon military and airbases threatened by the breakaway of Iceland at one end, Ceylon at the other and the withdrawal of 100,000 troops from NATO to resist insurgent nationalism in North Africa, it

would seem to be time for some "impetuosity."

The warning voiced by Assistant Secretary Wilcox is reminiscent of the advice said to have been written to the young Charles Lindbergh by his anxious mother when he was flying the early mail planes: "Dear Son: Please fly slow and keep close to the ground."

Ambassador Lodge's recent statement on multilateral aid

Even with the warning to walk, not run, to meet the future, the indication that for the first time the State Department was reconsidering and edging toward support of the SUNFED principle was heartening. It was followed April 30 by an Associated Press interview with United States Ambassador to the United Nations Henry Cabot Lodge, which was even more explicit in endorsing the SUNFED idea:

"Ambassador Henry Cabot Lodge, Jr., said today the present world situation requires the United States to channel a large share of its foreign aid through

the United Nations.

"In meeting the challenge of the new Soviet competition, he said, such a move would offer 'some real advantages over a program sponsored by the United States alone.'

"'Multilateral aid,' Lodge added, 'offers a way to prevent the so-called auction which some are trying to promote between the United States and the U. S. S. R., as to which will spend the most in an underdeveloped country.'

"Lodge's statement was a bid for Russia, as well as the United States, to join in pooling more of their aid under U. N. supervision. He expressed the belief the proposed move would offer special benefits to the recipient countries.

"One advantage, he said, is that a sound multilateral program would provide no cover for engaging in political penetration which is what the Communists

do and which we are unjustly suspected of wanting to do.'

"Lodge suggested that U. N. technicians, sent into the underdeveloped countries, might be given special uniforms which would make it difficult for them to engage in 'surreptitious political activity.'

"Lodge said the United States should maintain both bilateral and multilateral

programs.

"'But,' he added, 'the present world situation is one which required our giving new emphasis to multilateral programs. We can do this without any additional expense by diverting a percentage of our foreign aid funds to multilateral channels.'"

UAW's telegram to Ambassador Lodge

On behalf of the UAW, I sent Mr. Lodge the following wire (April 30, 1956):

"On behalf of the UAW and personally, I hasten to thank you for your statement reported by the AP this morning in support of increasing use of the U. N. in international economic cooperation with the underdeveloped countries, presumably using not only U. N. technical assistance and loaning agencies but also the system of grants-and-loans proposed in the SUNFED reports of 1954 and 1955. The establishment of SUNFED is essential to finance the basic facilities that must be the foundation for those economic developments that can then be financed by internal and external loans.

"Now that the H-bomb stalemate is diverting Soviet efforts to attempts at economic penetration, it seems to us that the imperatives of international eco-

nomic cooperation require immediate support and implementation of the SUNFED idea by the United States of America and other 'have' nations. Delay of even a few months would be immeasurably expensive in terms of lost opportunities."

Early establishment of SUNFED urged

One of the principal reasons why I wrote the chairman of this committee to ask for time to testify is our strong conviction, which we share with the AFL-CIO and the ICFTU (the International Confederation of Free Trade Unions), that the early endorsement, establishment and support of SUNFED is an urgent necessity in the global contest that is now going on between freedom and a totalitarian imperialism that is as dangerous when it smiles as when it frowns. This totalitarian challenge is perhaps more dangerous when it manages to combine a continued buildup of military strength, economic strength and a rapid increase in the number of highly educated and trained technicians with a new "friendly" foreign aid and trade program.

Findings in 1951 Report of United States International Development Advisory Board

Essentially, SUNFED is not a U. N., not a "foreign" idea or proposal. Although its justification has been recently well stated by Assistant Secretary Wilcox and Ambassador Lodge, as long ago as March 7, 1951, in transmitting the report of the United States International Development Advisory Board, which included representatives of organized labor, its Chairman, Nelson Rockefeller, said:

"Two weeks after the assignment was given us a national emergency was proclaimed. In line with that action the Advisory Board has felt the added responsibility of examining the problems of the underdeveloped areas in relation to mobilization for defense. The more deeply we have studied this relationship the more impressed we have become with how truly inseparable these problems are. \* \* \*

"The Board has given careful study to the Gray report and to extensive additional information and material which was brought together for its use. On this basis, the Board has arrived unanimously at the conclusions and recommendations which make up our report. We feel that effective cooperation of all free peoples for joining defense and economic and social development is a fundamental requirement for mankind's progress toward peace, freedom, and wellbeing."

Under the heading "First Things First," the Board reported its feeling that, because of a defense emergency, "it was its added responsibility to ask and examine what is the proper place of international development in relation to defense.

"As a result of its findings, the Advisory Board feels that strengthening the economies of the underdeveloped regions and an improvement in their living levels must be considered a vital part of our own defense mobilization.

"The Advisory Board recognized that the first imperative must be to rebuild sufficient military strength to resist aggression. But the overall strategy adopted by the free world and the disposition of resources to implement that strategy must be sufficiently broad to beat off the threat of social and economic collapse from within as well as the threat of aggression from the outside."

The Board recommended:

"The fullest use should be made of the United Nations and other international organizations operating in the field of economic and social development. They permit the pooling of skills and techniques of numerous nations, enabling other countries to participate in common international effort \* \* \*.

"To finance a portion of the cost of public works which are essential to the underdeveloped countries and which cannot be financed on an ordinary loan basis, the Advisory Board recommends the prompt creation of a new International Development Authority in which all the free nations will be invited to participate \* \* \*.

"The Advisory Board recommends that the subscription of the United States should be \$200 million."

V. THE NEED FOR PROGRAMS TO TRAIN AMERICAN TECHNICAL TASK FORCES TO GO ABROAD AND TO AID THE TRAINING OF SKILLED TECHNICAL MANPOWER ESSENTIAL IN ECONOMIC DEVELOPMENT

An educational and training program of scientists, engineers, and other technicians is an integral and essential part of any plan of economic assistance to underdeveloped countries. If, with our help, people in these countries are to acquire and use modern tools of agricultural and industrial production, they have

to learn how to use them and, eventually, how to make them. If they are to combat disease and malnutrition and build more and better housing, they will need our help both in starting to do the job and in learning how to do it themselves.

Two types of programs advocated

This part of the program divides itself naturally into two separate and distinct parts.

The first is the provision by us of a scientific and technical task force that will go to the countries we are aiding to assist them in getting their modernized industrial and agricultural production programs underway and to work with them in the development of modern sanitation, medical, dietary, and housing programs.

The second is the matter of training their own people to take over and manage

these programs themselves.

The first part of this program—the development of a technical task force of scientists, engineers, and technicians—is but part, though a very important part, of a much larger problem that confronts us in the United States.

Problem of critical shortage of United States trained technical personnel

That larger problem is our critical shortage of trained technical personnel and the lack, to date, of any effective plans to remedy the shortage. This is a matter of serious import, not only as it relates to our foreign-aid program, but also as it relates to our own domestic scientific and industrial progress, particularly in connection with the development of peacetime uses of atomic energy.

I am not alone in expressing alarm at this critical situation. Leading educators, industrialists, Members of Congress, and other Government officials and our more astute and conscientious journalistic observers have sought repeatedly in recent months to direct the attention of the public and the Government to

this acute shortage in our national life.

As a member of the panel on the peaceful uses of atomic energy, I expressed some ideas about and suggested a plan to meet this problem in a separate opinion filed with the Joint Congressional Committee on Atomic Energy. Similar attitudes and proposals have been arrived at independently from me and publicly expressed by people with far greater competence than I in this specialized field. But I would like to incorporate into this statement some of the observations, and the specific proposal, which I made to the Joint Congressional Committee:

Suggestions made by Mr. Reuther to Joint Committee on Atomic Energy

"I believe that insufficient attention and urgency has and is being given this problem of assuring an expansion of our highly-trained manpower base. AEC program is being seriously delayed because it cannot get needed scientists, engineers, and technical personnel. Private industry by the attraction of high salaries is robbing the AEC of key scientific and engineering personnel and is depleting our already inadequate faculties of colleges and universities. practice of robbing Peter to pay Paul has already inflicted an inestimable price in delaying our progress in harnessing the atom to man's peaceful needs. Only a realistic approach to our problem of training and education through expanded facilities, larger and adequately paid faculties, stepped up scholarship programs. better apprenticeship courses, and other such measures can overcome this serious and costly manpower deficit. It must be recognized that the tax structure of both State and local governments and the financial problems of private schools make substantial Federal aid to education essential if we are to remove the roadblocks and make our school system adequate to the challenge and equal to our needs.

"I am confident that, as a free people, we can find a formula to provide Federal aid to education without Federal control. We need to reduce the size of our classes and to give greater attention to gifted students. We need to give greater attention to the curriculum of our secondary schools for they form the basis on which our higher schools of education build. Speaking in Cleveland in December 1955, Admiral Strauss stated: 'Our atomic progress will be determined primarily by the number of young people who study science and mathematics in our high schools and go on to college to become scientists and engineers.'

"We are losing precious and irreplaceable time for every year we fail to provide educational opportunities to facilitate to the fullest the growth and development of our youth. This loss cannot be recaptured. It is an asset gone forever.

"The extension of human knowledge and the training of adequate numbers of competent scientists, engineers, and technicians can be decisive in freedom's struggle against the immoral forces of Communist tyranny. The seriousness

of our national educational deficit is reflected in the fact that in 1955 American universities and colleges graduated 27,000 engineers and scientists, while it is reported that the Soviet Union graduated 34,000 students in these fields. (Former Senator William Benton, who has just returned from a trip to the Soviet Union, recently stated before the Joint Atomic Energy Committee that Russia graduated 63,000 engineers in 1955 while the United States turned out 23,000.) A reliable educator reports that the Soviet Union has approximately three times as many students in the fields of engineering and physical sciences enrolled in their higher schools of learning than does the United States and that the Soviet Union is doing a comparably qualitative job of training.

"If these reports are true, this is a frightening and dangerous situation, for the struggle between freedom and tyranny is both real and for keeps. It is already clear that the Soviet Union is prepared to send scientific and technical personnel to foreign countries for purposes of economic penetration and subversion in greater numbers than we can afford for our program of economic aid

and liberation from poverty.

"Dr. James R. Killian, Jr., president of the Massachusetts Institute of Technology, as reported in the New York Times, January 24, 1956, recognized that Russia has outstripped the United States in the output of scientists and engineers. The New York Times reported that Dr. Killian urged the Government to draft a master plan for maintaining the Nation's technological lead in the face of swift Russian gains. Dr. Killian proposed a scientific commission for giving direction and velocity to our technological advance. He stated that the safety of the free world depended 'increasingly on that combination of science, engineering, and industry which we call technology.' Dr. Killian further noted Russia's long-range planning, her short lead time from idea to finished production, the percentage and monetary awards accorded her scientists, and her budget for her technological projects.

"The shortage of highly-trained scientific and technical personnel will continue to be the most serious retarding and limiting factor both in our domestic progress and in our ability to effectively carry out our responsibility of world leadership. Here again bold and imaginative action is needed by the Federal Government in cooperation with State and local governments in the field of

education.

"As a practical step in overcoming our educational deficit and manpower shortage, I would like to suggest that Congress give consideration to the creation of a broad and comprehensive system of Federal scholarships to be awarded to students on a competitive basis. Such scholarships would be granted on condition that, upon the completion of their education and training, students would be obligated to serve wherever their training and skill was most needed. If their services were needed to help overcome the teacher shortage or the manpower needs of AEC's military or peacetime atomic programs, they would be obligated to serve wherever assigned for a period of 1 year greater than, and in lieu of, the period of their normal military service. If their services were needed in the implementation of our foreign-aid program, they could be assigned anywhere abroad for a period equal to, and in lieu of, the period of normal military service. Such a scholarship program would expand our trained manpower base and would enable tens of thousands of young Americans to develop their capabilities to more effectively serve their country and the cause of human freedom.

"I believe that such a scholarship program would inspire thousands of our young people with a sense of democratic idealism and devotion and would afford them an opportunity to make a positive contribution in freedom's peaceful struggle against the forces of Communist tyranny. Such a program would enlist thousands of America's youth as technical missionaries in the struggle against man's ancient enemies—poverty, hunger, ignorance, and disease—and would strip the Communists of the opportunity of forging human desperation and poverty into power.

"In the struggle for the hearts and minds of millions of yet uncommitted people in the economically-underdeveloped portions of the world, the more young Americans we send to help as technical missionaries with slide rule, with textbook, and with medical kit to work in the pursuit of peace, the fewer we might need to send with guns and flamethrowers to resist Communist aggression in

the battlefields."

Training technical manpower of other countries

The second part of this program is of an entirely different nature and calls for the removal of entirely different obstacles. This is the matter of giving

training—either practical or academic, or both, as the case may be—to nationals of the various countries we are assisting, so that these countries may develop and expand their own base of trained technical manpower to take over the direction and execution themselves of their social and economic and industrial programs.

# Technicians trained by Soviets

Elsewhere in this statement, I note the fact that already 131 out of a projected total of 686 Indian technicians who will work in the Soviet-constructed steel

plant at Bhilai have gone to the Soviet Union for training.

The Indian Government would prefer to have many of their technicians trained in the United States. Whether they do or not depends on us. But we may safely rely on one hard, cold fact: they are going to be trained—either here or in the Soviet Union!

# Groups of Indians needing technical training

I was provided with a list of individuals who are ready and available and in need of practical on-the-job technical training. This group includes technical and supervisory personnel for the steel industry including coke oven plants, blast furnaces, smelting shops, rolling mills, foundry shops, forge shops, oxygen plants, communication systems, and engineering in specialized industries. The people whom India would send for this on-the-job technical training are, for the most part, graduate engineers or have considerable academic training in the field in which they are seeking practical training.

The obstacles in the way of our participating in such a program are not many and they can easily be removed. Since my return from India, I am taking steps to discuss with trade union officials and industry representatives ways and means of implementing such an on-the-job training program.

## Importance of providing training to foreign technicians

I am sure that the members of the committee are impressed with the importance of providing such training opportunities to as many foreign technicians as possible. These are people who will be among the most important and influential citizens in the community and national life of their countries during the next several decades. Their orientation as between democracy and totalitarianism is of the utmost importance to themselves and to their own nation, as well as to the free world.

I urge that the committee take cognizance and stress the importance of both these aspects of an educational and training program in your recommendations to the Senate.

# VI. USE OF AGRICULTURAL SURPLUSES TO FINANCE ECONOMIC DEVELOPMENT IN UNDERDEVELOPED COUNTRIES

During my recent trip to India I was impressed by the chronic poverty of the majority of the people and by the main symptom and cause of this poverty; near starvation diets and underemployment.

Hundreds of thousands of men, women, and children literally live one day or so from starvation. Each day the struggle for food is the biggest and most un-

certain factor in their lives.

Remembering the vast surpluses stored in Liberty ships in the harbors and rivers at home and in the granaries across our rich land, I came back more convinced than ever of the simple moral proposition that foods and fibers are not "surplus" when millions of men, women, and children are hungry and cold for lack of food and clothing and that it is both wise and expedient to get these so-called surpluses to those who are hungry and ill clad.

# Problems arising in disposal of surpluses

But it appeared immediately that this is a problem. If this is done out of hand, we are told, we damage our standing and relations with other peoples by tending to break the economies of other countries, depressing prices all the way to the farmers themselves, making enemies all along the line and even endangering the economic and political stability of their governments.

We found that men of good will in the FAO, beginning with Lord John Boyd Orr, later Norris Dodd and P. V. Cardon, have urged ever since FAO was founded in 1945 that ways be found to feed and clothe the ill fed and ill clad with so-called farm surpluses without damaging the farmers, the processors, the distributors and the economies and governments of recipient countries. We are

told that our questions are good ones and that more work should be done to find answers and to devise ways and means to implement them.

# FAO proposals in 1946

400

In October 1946 an FAO conference meeting in Copenhagen adopted the general objectives of a World Food Board set forth by its Director-General, which appears to have been based on the proposition that food is grown to eat and fibers to wear and use. As accepted by the FAO Conference, these objectives were:

"(a) developing and organizing production, distribution, and utilization of the basic foods to provide diets on a health standard for the peoples of all countries:

"(b) stabilizing agricultural prices at levels fair to producers and con-

sumers alike."

But, instead of action to set up such a board, a Preparatory Commission was set up to study the proposals further. In the 10 years since that time, as we have been able to piece together and understand the long and complex story, we have had much study and very little action. Meantime, so-called surpluses have mounted, farm incomes have declined, and with rapid population increases there is as much chronic hunger now as there was then.

is as much chronic hunger now as there was then.

The challenge so well stated by Lord John Boyd Orr still stands. And, whatever the complexities and difficulties are, the international failure to meet it is a reproach to all of us, not least to the United States. We endanger peace by

continuing to avoid it.

# Objectives of Senate Resolution 86 and FAO pilot study supported

In trying to sift through 10 years of "study" of this subject we have come across 2 specific current proposals which, it seems to us, should be part of any realistic and truly adequate program of international economic cooperation to assist underdeveloped countries. Both meet the test set up in 1946; both would bring together surplus food and empty bellies. Both would do so without harm but with benefit to farmers, to the economies and the political stability of contributing and receiving countries. We urge this committee in considering proposals, including our own, for stepping up foreign economic aid, to include both. They are:

1. The creation of an International Food and Raw Materials Reserve, as proposed in Senate Resolution 86, introduced March 30, 1955, by Senator James Murray for himself and 23 other Senators, which is scheduled for

hearing before one of your subcommittees May 28 and 29.

2. The use of surplus food as part of the capital needed by underdeveloped countries (having low incomes, high unemployment, underemployment, and chronic hunger) to finance basic projects, along lines suggested in the FAO pilot study "Uses of Agricultural Surpluses to Finance Economic Development in Underdeveloped Countries."

Each proposal can assist the other. Both in turn can be meshed with technical assistance and economic assistance provided bilaterally through ICA and, increasingly, through various U. N. and regional agencies, including SUNFED,

the World Bank, and the International Finance Corporation.

Both can be used to unfreeze our present vast stock of foodstuffs, get them moving, working in this economic cooperation program, working for us, not against us.

These proposals it seems to us can be used to:

1. Meet famine resulting from crop failure caused by drought, flood, war, or other disaster.

2. Supplement and improve diets for the one-half of the human family

who now have less than enough to eat.

3. Prevent inflation of living costs which otherwise would accompany increased employment and earnings of workers formerly paid less than \$100 a year and eating less than 1,900 calories a day.

Senator Murray, for himself and the cosponsors of his bill, stated most effectively, in terms of facts, statistics and the hard truths of human history, the case for early establishment of an international food and raw materials reserve.

If now the international speculators in tin, zinc, copper, and other strategic metals are determined to oppose this bill because it might interfere with opportunities to make killings on market fluctuations, I hope your committee will resist such an attack and, if such pressure should prove too strong, that at least the

food reserve will be saved and favorably acted on by the Senate before adjournment.

In addition to stabilizing the market for the orderly marketing of foods and raw materials, the sponsors of the Murray bill set forth as one of the bill's five purposes "to provide that payments for commodities by underdeveloped countries may be used for the purchase of other materials in those countries or loaned back to them for needed economic and social development."

At this point, SUNFED, the World Bank, or other agencies might be brought

in to take over the obligation or the funding of such loans.

Both city workers and farmers understand the argument so thoroughly and eloquently stated by Senator Murray in offering his bill more than a year ago.

Although the whole statement is pertinent to the formulation of a thoroughly integrated and truly effective program of international economic cooperation, we call particular attention to excerpts which appear in appendix F.

FAO's concrete plan and proposal to use agricultural surpluses to assist in financing economic development in underdeveloped countries seems to us to make

If the United States of America, either on its own initiative or in cooperation with other nations through a world food reserve, could start now to put such a plan into effect in India and any other country where the government is prepared to lay out projects and programs for economic development that can take advantage of such a plan, we could use United States and other food and fiber surpluses as working capital in assisting the underdeveloped countries to catch up with modern technology in industry and agriculture.

In so doing, we would find greater outlets for our surpluses than are open now as we seek to dispose of surpluses in the more developed and higher income countries under terms that are creating anxiety, if not ill-will, among our best

friends, such as Canada and Uruguay.

The FAO proposal is the result of a pilot study made on the ground in India by the FAO working with the cooperation of various departments of the Indian Government. Its findings and recommendations seem to be useful for other countries and regions. It is an illustration of what can be done by using socalled surplus food as capital. This proposal was designed to help such countries as India to speed up their economic development—alleviating both near starvation and unemployment during the building-up process-through the use of surplus farm products now piling up in our own and other countries blessed with overproduction.

The proposal was presented to the full Conference of FAO last summer for the consideration of and possible action by member countries. Several delegations. including that of the United States, expressed their interest in this approach at that time. As a matter of fact, a special meeting of interested delegations

was held to explore the subject more deeply.

Operation of the FAO proposal: using India as an example

Taking the example of India, as provided on the one hand, and of the United

States, on the other, the gist of the proposal is this:

1. India, with the help of American and U. N. experts, could draw up a list of desirable development projects which she finds it impossible to finance during a given period—say, the next 5 years—out of her own resources, together with a listing of all clearly foreseeable foreign financial aid. Priority would be given to projects with high labor content, particularly in areas of high unemployment or underemployment. An estimate would be made of the total labor cost of each project.

2. Then, on the basis of income and consumption studies in those areas, a formula would be developed to predict what proportion of the wages paid out to the workers would be spent to buy more food (and, also more cloth-

ing), and for what kinds of food (or fiber).

3. The total bill for these projects would consist of three parts:

(a) Administrative and materials costs;

(b) Wages which will be spent by the workers for expenditures other than food and clothing; and

(c) Wages which will be spent for food and clothing.

India may not find it too difficult to finance parts (a) and  $(\bar{b})$  of this bill, except for that part of the materials costs which may be represented by imported equipment and which could be paid for with additional external grants or loans. Other countries may need additional aid in cash.

However, even India would not be in a position to finance part (c), representing additional demand for food and clothing, from domestic resources. Her current agricultural production is already too small to provide adequate diets: hence, any additional purchasing power among low-income groups would simply raise food prices for all consumers and set in motion a spiral of inflation.

This is where the United States or a group of surplus-food-producing countries We-or a group participating in a world food reserve plan such would come in. as is proposed in Senator Murray's bill, Senate Resolution 86-would agree to supply to India free of charge over the 5-year period the kinds and amounts of food and fibers required to satisfy the estimated additional demand for these commodities created by the extra wages paid out on the projects.

Two main alternative ways of administering such a program in India are

suggested by the FAO, from the point of view of greatest practicality:

1. Direct distribution, in lieu of part of wages, or sale to project workers

of the imported foodstuffs (through canteens and/or messes); or

2. Sale of the imported surplus commodities in principal consumption centers within the marketing area where the projects are located, on the assumption that an approximately equal quantity of locally grown foodstuffs will flow into project areas to meet the additional demand.

We would, of course, oppose payments in food instead of cash wages, but the study puts principal emphasis on cash sale and this could be made a requirement.

The Indian pilot report shows that the proportion of wages paid which will be spent for food—in the case of an illustrative study—varies from 30 to 50 percent. Since similar conditions of underemployment and underconsumption exist in many other underdeveloped countries, this range is probably not far from representing an international average. If clothing were added to the analysis, the average proportion would probably be much closer to 50 than to 30 percent.

## Using the FAO proposal approach

Thus, particularly if projects with high labor content are given absolute priority, the United States by using this approach may be able, over a number of years, to finance a number of important long-term development projects to a large extent with surplus farm commodities.

Of course, this proposal is by no means as simple to implement as it may seem at first sight, in view of the conditions which must be met to guarantee its successful implementation and of the amount of study and preparation required. Nor should this approach be considered a panacea, either for our agricultural

surpluses or for world economic development.

Yet, here is a concrete and realistic plan for translating into action the sincere American desire, so often expressed, to put our agricultural surpluses to work where they can help people in need to help themselves and where they will generate lasting friendship for the United States instead of suspicion and resentment.

#### Lack of attention given to FAO proposal

It seems incomprehensible that, so far as we know, the administration has not seized upon this FAO proposal, especially in the framing of its latest foreignaid message. Equally surprising is the lack of attention paid it by our generally alert press. An interesting article appeared last January in the Wall Street Journal, which unfortunately overemphasized a minor, illustrative project in the pilot study calling for, in addition to many things benefiting people, the importation of elephant feed. Otherwise, the press appears to have largely

This apparent apathy is strange because this proposal by the FAO contains, to my mind, the answer to a number of problems with which this Government has

been grappling, somewhat unsuccessfully, for some time.

The administration states the real need for authority to enter into long-term commitments for a limited number of development projects. But it has not seen fit to come to Congress with a proposal which, by utilizing mountainous agricultural surpluses, would be likely to gain the support of Congress and of the

American public.

The administration also professes to be continuously exploring new ways of disposing of surplus farm commodities, particularly abroad and in ways which would result in increased consumption rather than in the displacement of marketings of friendly nations. But it has apparently not yet thought of giving the FAO's proposal a try, despite its expressions of agreement in principle at the FAO Conference.

Soviet absorption of agricultural surpluses

One of the Soviet Union's principal weapons in its new economic warfare seems to be its readiness to absorb agricultural surpluses from underdeveloped coun-

tries, such as Burma, Egypt, and Syria.

Not only has the United States failed so far to counter this extremely effective Russian gambit, but we continue to eye some of those same countries suspiciously as competitors with our products on the world market. We continue to "sell" our surpluses for local currency in their traditional markets. And we hesitate to assist their economic development for fear that they might expand their production of competitive products. I shall return to this latter point a little later.

## Turning surpluses into international asset, rather than liability

Would it not appear natural for us to come forward with our agricultural surpluses at this time as part of an imaginative and liberal plan for development assistance, and thus turn them into an international asset instead of an international liability?

It might be argued that we already have on our books two pieces of legislation that closely parellel the approach suggested by the FAO. This legislation and its implementation do not seem to us to meet the test.

# Section 402 of Mutual Security Act of 1954

Section 402 of the Mutual Security Act of 1954 provides that not less than \$350 million of economic aid funds appropriated each year shall be made available to recipient countries in the form of surplus agricultural commodities. This, like its predecessor acts was not a "program" so much as an administration attempt to assure support for the foreign aid program; unlike its predecessor, section 402 does not even provide that surplus commodities programed under it for any specific country must be above that country's "usual" purchases from the United States or from anywhere else.

#### Public Law 480

Public Law 480, under title I, as amended, authorizes the expenditure of \$1.5 billion over a 3-year period to dispose of surplus farm products abroad against payment in foreign currency. No provision of the law states that these exports must represent additional consumption of these products in the recipient countries. It merely requires the President to "take reasonable precautions \* \* \* to assure that sales \* \* \* will not unduly disrupt world prices. \* \* \*"

Moreover, the law—in specifying the uses to which local currencies accruing from these sales shall be put—places primary emphasis on those uses which are of direct benefit to the United States (establishment expenditures and, in some cases, military construction), and it requires a special Presidential waiver before any of these funds are granted (rather than loaned) to the recipient country.

As a result, under Public Law 480 agreements signed to date, an average of less than 50 percent of the local-currency accruals will become available for economic development in the recipient countries; in addition, less than 2 percent of the economic development funds are being granted.

This latter fact places a considerable burden on underdeveloped countries which (despite the protestations of some that they don't want "gifts") must in practice be careful not to mortgage too much of their future economy in the form of foreign loans. It also, incidentally, makes Public Law 480 deals somewhat less attractive to some countries than they could be.

We do not wish to be misunderstood. We are not trying to make out a case against Public Law 480 which, on the whole, may be a good and necessary piece of legislation. With perhaps certain modifications, it can continue to assure a market for American farm products—so long as they are in real surplus—in higher-income countries who are reluctant to allocate dollars for such imports.

# Shortcomings of Public Law 480 and section 402

But it does seem to us that neither the Public Law 480 nor section 402 is really designed for the purpose of using food to help in the economic development of other countries.

Section 402, in practice, merely gives recipient countries a choice of accepting a certain share of our aid dollars in the form of surplus farm products (even though they may feel they need other things more from the United States) or doing without the equivalent dollars altogether.

Public Law 480 is more candid in its approach; its avowed primary purpose is to maximize the export of surplus farm commodities. The use of the pro-

ceeds from sales under this law for economic development is incidental and subordinated to this purpose.

Neither law, and this is the important point, provides a mechanism to insure that our surplus commodity exports result in additional world consumption of these products which would not have taken place in the absence of such exports.

One does not need to be much of an economist to conclude that, no matter how much the figures are processed, Public Law 480 exports must, in the final analysis, displace commercial exports, either from the United States or from other countries, unless we are to come to the conclusion that they will tend to displace the farm produce of the recipient country itself.

It cannot be denied that such economic development as may be financed with local currency under Public Law 480 agreements will tend to generate greater demand for farm products. However, this is, so to speak, an ex post facto development. It cannot and is not meant to relate directly to the surplus United

States farm products consumed, either in quantity or in time.

Recommended plan for use of United States food surpluses as development capital

A number of important advantages could be gained, in our opinion, from an adoption by the Congress of a program for underdeveloped countries-along the lines which FAO has suggested.

If we do this we can make possible long-term development commitments by this Government with a minimum outlay of cash above what has already been invested

as part of our domestic farm programs.

To start with, as a pilot operation, perhaps tying in with SUNFED financing in money, the United States can offer food as development capital to India and other countries who have large numbers of unemployed and undernourished people who could go to work on much-needed economic development projects having high labor content.

Later we can turn the operation over to the U. N. as part of the world food reserve, meshing it with the operation of SUNFED, the World Bank, the International Finance Corporation and other agencies to fulfill the pledge we made 11 years ago in signing the U. N. Charter to take joint and separate action to promote "higher standards of living, full employment, and conditions of economic and social progress and development."

Properly planned and implemented, this action will result in a regular orderly and sizable disposal of agricultural surpluses for an unlimited period. In fact, if we let our imaginations go for a minute, we might even visualize its resulting in a much diminished preoccupation with cutting back farm production at home. We might yet come back—with more justification than heretofore—to the last half

of the slogan, "Food to win the war and write the peace."

It would assure reaching the really needy immediately with our foreign aid, rather than benefiting just a few of the already wealthy, as has so often been alleged and sometimes been true of some of our aid.

This use of United States farm surpluses as development capital to strengthen both the bodies of men and their means of making a better living will, we believe, prove to the people of the world our willingness to share abundance, confident that higher living standards elsewhere will strengthen world markets for all.

Our competitors in farm exports should be urged to join us in this use of food

as development capital.

Such action at this critical moment in world history will convince the peoples of the underdeveloped nations that we are primarily interested in their future development, rather than in their present limited potential as markets for our

surplus farm products.

The projects with high labor content which would represent the surest base for the success of such a program are, for the most part, typical of what is called infrastructure or social overhead development such as roads, railways, soil conservation, irrigation, housing, schools, hospital construction, and education. This, it should be noted, is the field of development in which both the United States and U. N. assistance should be vastly increased, as we have said earlier.

Let us consider the underdeveloped countries as temporary nonpaying consumers of our surplus farm produce until such time as they will have developed their own production and/or foreign exchange earnings to higher levels and our rapidly growing population and domestic demand catch up with our agricultural

productivity.

Then they and we will be better customers for each other, just as Canada and Switzerland are better customers, in terms of being both willing and able to buy and sell, than India or Bolivia are today. The way to live with abundance and to keep it growing is to share it.

The world's challenges

In conclusion, while we support the bill before you, while we urge as an immediate minimum the additions we have described, I want to say that the challenge and the opportunity in this world of automation, atomic energy, and the U. N. Charter should not frighten but rather inspire us to lift our sights far higher than they have been set since the peak of the Marshall plan was reached.

Two days ago we were told that in automobiles we are going to have the third best year in our history. This will have meaning beyond our industry: it will

affect our entire economy.

It appears that we are also having our third best year in foreign affairs, when we should be at work achieving our best year both at home and in foreign affairs.

A world fund for peace, prosperity, and progress is proposed

I feel that morally I cannot close this testimony without laying before you, as I have previously laid before the Secretary of State (see appendix C) a proposal that we the American people through our Government, meaning you, the Congress and the President, commit ourselves to contribute to a world fund for peace, prosperity, and progress, a sum equal to 2 percent of the gross national product of the United States for a period of 25 years for the purpose of helping peoples of the economically less developed nations to help themselves in developing their own economic resources and raising their standard of living, their standard of health and their standard of education.

Two percent of our present gross national product for a 25-year period would be less than what 7 months of World War II will have cost the American people in terms of dollars, not counting the priceless and inestimable loss in human lives and human values. While urging a reduction of all forms of armament under a system of effective and universal control, this United States 25-year commitment should be made without qualifications and would be effective without regard to the success or failure of disarmament efforts.

If disarmament efforts succeed, as we all pray, then the United States would express its willingness to share the economic savings made possible by a reduction in the military budget by contributing 50 percent of these savings to augment the fund provided by the 2 percent gross national product allocation. Such a sharing of the savings made possible by reduction in armaments would be for

the same 25-year period.

To give substance and to build upon the Geneva spirit, the United States would request the U. S. S. R. to make a similar commitment to the World Fund for Peace, Prosperity, and Progress equal to 2 percent of the gross national product of the Soviet Union for a period of 25 years. Further agreement should be sought to have the U. S. R. commit itself to sharing on a 50-50 basis the economic savings that would result in a reduction of arms spending. All other nations able to contribute to the World Fund for Peace, Prosperity, and Progress should be urged to do so within the limit of their resources.

This is an election year, and election years are supposed to breed timidity and caution. World events and human needs, however, will continue to move and continue to demand our attention. There is no reason to suppose that the American people are not acquainted with this simple truth. Nor is there any reason to believe that the American people, regardless of party labels, will shrink from commitments that are necessary, that are honestly explained, and seriously

advanced in the search for an honorable and durable peace.

The American people will listen and they will sanction the boldest action geared to those positive peacetime ends. For they will understand that the costs of such a program will ultimately be reckoned, not in dollars and cents alone or primarily, but in millions of lives spared, in nations not devastated by hydrogen bomb attack, in civilization saved from ruin, in humanity freed for action in the never-ending and rewarding tasks of peace.

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#### APPENDIX A

From UAW International Relations Resolution Adopted April 1, 1955, CLEVELAND, OHIO

It should be abundantly clear that our chances of avoiding atomic war, or, if such war should come, our chances of winning it, will depend upon the kind of leadership which the free world is able to provide to the millions of people who are at this moment in open revolt against hunger and oppression. We must make obvious by deeds and action that there is a democratic alternative to the false hopes held out by communism. We must establish again by deeds and action our faith and our belief in the right of all people to win freedom from despotism, whether it be imposed by other nations which bind them to colonial status or by foreign corporations which extract their wealth without just compensation or by their own ruling classes which monopolize their land and exploit their workers. To the struggling people of the Middle East, Africa, and Asia, we must demonstrate that we are on their side in support of their aspirations for genuine political and national independence.

Representatives of 30 Asian and African nations will soon gather in Bandung, Indonesia, to consider these vital matters. We urge the President of the United States and the Congress to continue and expand our technical and economic aid directly and through the United Nations to the underdeveloped and uncommitted countries of the world. Such concrete action will be fresh proof that the American people do not look upon these peoples as merely forces against Communist imperialism but that we have a deep and genuine concern with their

well-being.

We strongly urge Congress to approve and provide the \$80 million for the Special United Nations Fund for Economic Development (SUNFED) in order to further demonstrate the deep concern of the people of America to take immediate and practical steps toward world peace.

# From AFL-CIO 1955 Convention Resolution on Foreign Policy Adopted December 7, 1955

Resolved, conscious of our responsibilities at this crucial period, the AFL-CIO herewith declare their support of the following guiding principles for an effective American democratic foreign policy and sound international labor relations.

1. Effective foreign policy cannot be improvised and piecemeal. It must have a clear and definite orientation and be consistent, sustained, and vigorous in its application. Its motivating and paramount aims must be the mobilization of all our moral and material resources for developing a system of international relationships to maintain peace, protect freedom and national security, and enable a growing population to enjoy a rising standard of living.

2. Integration of our foreign political and economic policies is essential, if the great technical resources and mighty industrial potential of the United States are to be geared to increasing the productivity, raising the purchasing power, and improving the living standards especially of those economically un-

derdeveloped countries which are devoted to human liberty and peace.

3. Undeveloped and underdeveloped continents and regions where many hundreds of millions nurse their grievances and their hopes constitute a fertile field for Communist operations. In dealing with rudimentary human problems the world over, we must be concerned primarily with two immediate needs—the need for food, health, and irrigation in the underdeveloped countries and the burning desire for independence and equality. By ministering to such fundamental needs we will be on firmer ground as we seek to win new adherents to the free world.

4. We know that communism is a false solution; we believe that democracy is the true solution. Communism is weakened when democracy is strengthened. The representatives of democracy must go out into the underdeveloped regions

with specific plans, programs, and projects to help raise living standards, for helping to end all colonialism, for winning these peoples as equal members of the free-world community. Thus, we will make it possible for them to have

a stake in the defense of a civilization worth defending.

5. Our country has done some of this. UNRRA was a beginning. American labor supported the Marshall plan because it was conceived and largely administered in this spirit. Point 4 was an imaginative gesture in the same direction, but tragically all too little. Toward the same end, the Special United Nations Fund for Economic Development (SUNFED) provides real possibilities for developing and expanding worthy projects for the fundamental improvement of the economic conditions of the needy peoples. Our responsibilities include, but are not limited to, a firm and effective military defense of established positions against Communist subversion and aggression. Positive measures for social and economic betterment are an indispensable part of the program for the defense and victory of the free world.

# APPENDIX B

A SUMMARY OF LABOR SUPPORT FOR INTERNATIONAL ECONOMIC COOPERATION AS A PRACTICAL POSITIVE PROGRAM FOR ESTABLISHING A JUST AND LASTING PEACE Among Freemen

October 15, 1947: Secretary of State George C. Marshall speaks at CIO Conven-

tion, Boston, and CIO President Murray endorses Marshall plan.

November-December 1947: CIO Secretary-Treasurer James B. Carey and other labor members of Harriman committee, in formulating proposals for implementation of Marshall plan, support large-scale program including furnishing of unfabricated materials as well as finished industrial products to European countries in other to expedite industrial recovery and production—a historic example of enlightened action which proved to be good for both the United States of America and the aided countries.

February 3, 1948: CIO President Murray's statement supporting the European recovery plan to implement the Marshall plan is presented to the Senate Foreign

Relations Committee by Secretary-Treasurer Carey.

February 5, 1948: UAW President Walter P. Reuther testifies before the Senate Foreign Relations Committee in support of ERP.

March 10, 1948: CIO amplifies earlier support by issuing kit of supporting ma-

terial for use by affiliated unions, locals and members.

April 2, 1948: Senators Vandenberg and Pepper clarify legislative intent that labor participate in the administration of ERP.

1948 to date: Labor consultants are recruited from among persons with tradeunion experience to participate in ERP, ECA, Mutual Security, FOA, and ICA.

December 23, 1948: CIO President Murray writes Secretary of State Marshall asking United States of America urge the Netherlands, then receiving Marshall plan aid, not to shoot Indonesian Republicans seeking independence. ary 6, the State Department agreed. This action was of major importance in establishing Indonesian independence and the Republic of Indonesia.

1951: Labor supports Moody-Benton amendment to the Mutual Security Act stipulating that aid funds should be used in offshore purchases and otherwise to assist and promote (a) development of healthy independent industrial enterprises (rather than hardening inefficient profiteering cartels) and (b) free democratic trade unions (rather than passive acquiescing in the strengthening of Communist-dominated unions by indifference to the placement of contracts and funds as between plants and between honest and dishonest trade unions).

1953: UAW President Reuther urges ICFTU support of SUNFED; such en-

dorsement is included in ICFTU recommendation.

1955: CIO international affairs department issues pamphlet SUNFED or

UNFED.

Sept. 30, 1955: UAW President Reuther writes President Eisenhower urging massive program of international economic cooperation, including SUNFED, as free world's best means of countering Soviet shift from military buildup and threats of aggression to bilateral economic assistance and penetration of underdeveloped and uncommitted areas.

March 23, 1956: Reuther renewed recommendations for massive program of international economic cooperation, including SUNFED, in letter to Secretary

of State Dulles. (See appendix C.)

April 24, 1956: Upon return from India, Reuther in reemphasizing need for stepup in economic aid added proposal that United States surplus foods be made available to feed hungry people in such ways as will not be unfair to farmers in recipient or other producing countries and will not disrupt economics in recipient or other producing countries.

May 18, 1956: Reuther urges Senate Foreign Relations Committee to expand foreign economic aid program, saying need is as great and as urgent as

was implementation of Marshall plan in 1948.

#### APPENDIX C

MARCH 23, 1956.

Hon. John Foster Dulles,

Secretary of State, Washington, D. C.

My Dear Mr. Secretary: I have read with great interest reports of your press conference statement 2 weeks ago in Jakarta, Indonesia, that there is no connection between the willingness of the United States to give economic aid to countries that need and want it and the entry of any such country into a mutual security pact with the United States.

I hope that the millions of Americans who feel the urgency of rendering needed economic assistance to the millions of people in economically less developed countries may now find encouragement not only in these welcome words, but

also in the administration's subsequent deeds in this respect.

Unfortunately this has not been the policy followed by the administration to date; nor does it square with the priority given to military preparations in the Karachi communique just a few days before your Jakarta press conference.

It is devoutly to be hoped that the Jakarta statement represents a change in policy and that this policy change will be reflected in terms of practical and

tangible action.

It seems to me, as it does to many other Americans, that our economic aid programs have been too late and too little and have been planned and executed in a spirit of bargaining which has cost us dearly, seriously damaging the fund of good will which had existed in most cases beforehand. There has been too much calculation as to whether or not a nation receiving aid would submit to our leadership, whether it would fit itself into our current pattern of military alliances, and whether it would demonstrate the proper amount of gratitude.

We have developed too much the attitude, whether or not expressly stated in economic aid legislation or in the language of formal agreements, that if a country is not for us, she is against us. We have not based our action on the recognition (if indeed recognition there has been) that nations newly independent, free for the first time in modern history from colonial domination, have a strong, reasonable, and I believe, understandable, desire to cling to independence in their foreign policies. It is significant that the so-called neutralist nations do not by and large accept even the term "neutralist." To use their own terminology, they follow a policy of "nonalinement" in which they do not commit themselves in advance to the policies of any other government. Avoiding alinement, they say, is not necessarily the same thing as neutrality. For example, the Indian Government points out that the statements of its leaders on India's own dedication to democracy, its resolute fight against colonialism and racialism, show beyond question that India has not been neutral on vital moral issues in world affairs. In effect they say to us that we are as "neutralist" on the issues that count to them as they may have seemed to us. If a nation is sovereign and independent, if we can face it without a detour through Moscow or any other imperial capital, that is all we need as a basis for our relationship with that country. As you acknowledge in Jakarta, the young and newly independent United States was itself eager to devote its attention primarily to its own affairs and to avoid what George Washington called in his Farewell Address any "entangling alliances."

We must never forget the long years of colonial exploitation and imperialism by which the East judges the West. It would be convenient if we could just put that aside as if it had not happened, but we cannot do so, nor will the Asian and African countries let us if we try. In this age of a technology which knows no borders the gap between the "have" and "have not" regions of the world will not long remain. Lincoln, in his profound wisdom, understood that our Nation could not endure half-free and half-slave. Today we need to understand and we need to act boldly in the knowledge that we cannot make

peace or freedom secure in a world half well fed and half starving. Millions of people in the unalined nations are awakening to the realization that science and technology now for the first time provide the tools of economic abundance with which they can solve their ancient problems of poverty, hunger, ignorance and disease. The hungry, the naked, and dispossessed masses are on the march, and they are determined to free themselves from economic bondage as many have already freed themselves of colonialism and political bondage. There is no question, and future history will verify the fact that in time the economically less developed countries of today will find a way to master the new technology and will achieve economic development comparable and equal to ours.

The only question is whether the have-nots get where they are going with our friendship and help or without it. With our generous help they can help themselves, develop their own economic resources, and achieve economic equality through democratic means suited to their own conditions. However, if we fail to provide adequate economic aid and friendly cooperation, and sufficient progress is not possible, accumulated pressures may persuade these people to abandon the democratic approach and follow instead the totalitarian route. To us this challenge is both an economic opportunity and a moral obligation. The American economy is freedom's greatest asset, and if fully utilized it is equal to the challenge of raising our own living standards at home while helping others to raise theirs. Since we are blessed with greater economic resources than any other people we must be willing, as I am certain the American people are, to devote more and more of our wealth to rectifying the economic imbalance in the world, not as political bargainers to keep people from going Communist, but as humanitarian good neighbors to help them share in the benefits of modern technology. In the long run, we will gain by making grateful friends, not jealous enemies.

I am of the firm conviction that American interests and the cause of world peace would be better served if our efforts are directed wholeheartedly toward winning economically self-reliant friends whether or not they choose to be our

military allies.

Mr. J. D. Zellerbach, a prominent and respected American businessman, has

summed up this point of view admirably:

"The first step in fashioning a comprehensive long-range policy of economic development \* \* \* compatible with our national interests is to put economic aid on its own feet, instead of subordinating it to military consideration. There are those who believe that economic assistance should be given only to countries committed to us as military allies-and then only to the extent necessary to maintain a certain level of armed strength.

"This kind of thinking ignores just about all the facts of life in the underdeveloped world. Foreign aid is not a device for rewarding those governments

which agree with us and punishing those which do not."

Zellerbach added: "You do not initiate and develop an economic policy to produce shiploads of gratitude. You do so to produce shiploads of food and machinery. \* \* \* Our economic policy was never meant to create expressions of apprecia-

tion but to serve serious objectives of mutual interest."

I could not agree more thoroughly. Mr. Zellerbach has put the problem clearly and correctly. Unfortunately, however, the policies and attitudes of our Government have failed to reflect an understanding of the social dynamics of our changing world, and have therefore continued to place an undue reliance upon the purely negative approach of military power and alliances. The hungry and desperate peoples of the world will respond to a positive program of massive retaliation against poverty, hunger, and injustice. Only as we are prepared to use our economic resources to assist effectively and adequately peoples of economically less developed countries to carry forward bold and imaginative programs of economic and social construction, can we hope to attain a position of moral stature in the world. Because of unfortunate phrases and bellicose utterances on the part of certain American officials, the H-bomb has, in the minds of millions of peoples throughout the world, become the symbol most commonly associated with American foreign policy. No people in the world are more dedicated to peace. No people have responded more generously than have the American people. Unfortunately, this dedication to peace and this generosity have been pushed more and more into the background by the overemphasis in our foreign policy activities upon military power and military alliances. Such alliances in south and southeast Asia, in particular, have seriously perverted the true image of America and have put in jeopardy the tremendous reservoir of good will that America's past devotion to freedom and human values had earned.

I have supported our military commitments in Europe, accompanied as they have been by programs of economic reconstruction. But I believe the revolutionary situation in Asia and Africa today clearly argues against a policy based on military pacts initiated from the outside under our leadership. I believe American policy has failed to examine closely the political factors underlying the willingness or the absence of willingness to join these pacts. If you look squarely at these political realities and at the primacy of the economic challenge in south and southeast Asia I am confident you will see the need to reorient American policies in this area.

The people of many of the less economically developed nations are presently engaged in a revolution which, in its values and principles, is fashioned essentially in the image of the American Revolution. In fact, many of the declarations enumerating the objectives and goals of these revolutions are shaped in the very words of our Revolution. They are fighting to be independent and politically free. They are fighting for the right and the opportunity to develop their economic resources and gear them to the basic needs of their own people. We need to prove that we have not lost faith with the principles of our Revolution by identifying ourselves unmistakably with the principles and purposes of

their revolutions.

Where people struggle to throw off the yoke of colonial domination we must stand with them. Wherever people struggle to harness and develop economic resources to raise their living standards we must give them a hand. It is not enough to denounce colonialism with noble generalities. Such professions must be squared by practical performance. Unfortunately your policy in the case of Goa is doing violence to the whole tradition of American anticolonialism. Your initial reference to Goa, which is a colonial pocket surrounded by Indian territory, as a province of Portugal, was only the beginning. You declined to disavow this characterization at your subsequent Washington press conference when you indicated that you did not regard Goa as a colony. Even at your New Delhi press conference, March 10, you advertised right in India that "the United States has never taken any position on the merits of the Goa controversy," It is high time that the United States does indeed take its stand on India's side against this vestige of Western colonialism. Instead of permitting Portuguese intransigence to immobilize our policy, the United States must ceaselessly urge-Portugal to withdraw from the Indian subcontinent as the British and the French have already done. No other position is true to American tradition.

Similarly, America's support of world economic progress must be demonstrated in concrete terms. Our support of a long-range economic aid program, implemented as nearly as possible on a multilateral basis through the United Nations or some other such agency, can remove the H-bomb as our symbol and enable America to achieve as a Nation the moral stature which we need to make our

maximum contribution to the cause of world peace.

On April 1, India launches her second 5-year plan, a plan that aims at raising the living standards of 367 million Indians through industrial and agrarian development. Of the \$12.5 billion outlay for this second Indian plan, all but \$2.3 billion will be invested by India herself. The \$2.3 billion must come from

other sources.

Here is a concrete case of a great Nation laboring in its own vineyard to make democracy a flourishing reality, not by the specific forms which Americans have adopted to make democracy work, but according to those democratic ideals that are universally valid and which the United States itself advanced as the guiding philosophy of the Marshall plan.

How will the military preoccupation of the Karachi Conference square with this initiative of India? How does it square with your own call recently for a

continuing commitment to offer American economic aid to other nations?

I do not believe that it is faithful to the spirit or purpose of Americans to tell' the peoples of south and southeast Asia that their first duty is to prepare for war. Their first duty to themselves is to declare war on poverty, hunger, disease, and despair; to develop their resources, to provide productive employment for their people and to rid them of the extortion and oppression that flow from the concentration of land and wealth in the hands of a few.

Within recent weeks, leaders of Great Britain, France, and Italy have spoken clearly on this issue. They have said that military alliances are not enough, that we are not living up to the letter and spirit of those military alliances themselves in neglecting their economic clauses, which provide for economic as

well as military support.

What Prime Minister Eden, Premier Mollet, and President Gronchi have said should come as no surprise to us. They were voicing good American doctrine. Some of our people may have forgotten, but the peoples of the world who benefited from American aid have not forgotten the words of Secretary Marshall in 1947, when he presented the first outline of what became the Marshall plan.

The American conviction then and in the crucial years that followed was that our help should go to nations that were prepared to help themselves toward economic reconstruction, that it should go without political strings and riders. and that it should go to fight poverty and misery and not to tilt at ideological windmills. That was the line, by and large, that the United States followed We took the initiative in offering economic assistance under in those years. honorable terms; it was the Soviet Union which ducked the challenge and chose to sulk on the sidelines, damning a program that offered hope and a renewal of economic life to millions.

However, in recent months, Russia has moved in the Near and Far East, with an adroit combination of Marshall plan and anti-American speeches. It is impossible to tell whether the new Russia tactics represent a genuine challenge or a noisy bluff until we test them. Thus far we have neither picked up the

challenge nor called the bluff.

In meeting this challenge we must consider whether it is necessary or desirable that proud peoples and proud nations should be required to accept, out of need, direct aid from the United States under bilateral agreements. I do not believe American strength and wealth constitute not so much a privilege as a responsibility and we should make our proper share of assistance available in a manner that will accomplish the purpose of raising living standards without creating the damaging impression that we are distributing charity out of swollen accounts.

Prime Minister Nehru of India is one among many statesmen of the Far East who have stressed the importance of a multilateral approach to economic assist-The Special United Nations Fund for Economic Development (SUNFED) is ideally suited to this coure, yet we have not, to date, seen the wisdom of contributing to it.

On the contrary, despite the call of allies for a new emphasis, despite the shift in Soviet tactics, despite our own deeper sense of what we should be doing in order to be true to our best instincts as a nation, we persist in increasing

the military emphasis in our program.

An increasing share of our expenditures described as economic aid is being channelled into defense support projects, whose purpose is primarily military. Thailand, for example, has openly complained that more money should be going for decent housing instead of for armament. In Thailand, defense support expenditures have risen from \$3,580,000 in 1954 to a projected \$29,500,000 in 1956.

In 1955, out of 479.5 millions directed to Indochina, the Philippines, Thailand,

and Indonesia, only 39.5 millions were allocated for technical assistance.

We must reverse this trend. We must mean what we say when we speak of the importance of higher living standards. We must test the genuineness of the new Russian line, recapture the spirit that animated the European recovery program as originally formulated by Secretary Marshall and rejected by the Russians, and make ready for a long-range program of economic assistance to the unalined and economically submerged peoples of the world.

Aggression in Korea underscored the necessity for adequate military preparedness to meet aggression wherever freedom was threatened. While building adequate military strength, we must, however, never lose sight of the simple truth that military power is but the negative aspect of a dynamic and realistic foreign policy and that deterring military aggression itself is not enough.

We need to take the offensive on the economic and social fronts. marshal our economic resources, and we need to commit ourselves to a long-range total assault against man's ancient enemies-poverty, hunger, ignorance, and disease everywhere in the world where people are still denied the blessing of modern science and technology.

We have the economic tools, the material resources, and productive know-how, and I am confident that the American people have the will and the sense of moral

obligation to take the price tag off our efforts at waging the peace.

Every informed American recognizes that peace in the age of the H-bomb has become a condition of survival and that the human and democratic values that we as a free people cherish can be preserved and extended only if we succeed in making peace just and lasting in the world. When Nazi and Fascist aggression threatened free men and free institutions, America arose to the challenge. In

united and total dedication America committed its human and material resources. The men of little faith and little vision, the apostles of too little and too late were brushed aside as America went to work in earnest confidence. The challenge of peace is equally compelling, if not more complex, than the challenge of war. Halfway and halfhearted measures could not have won the war and they will not win the peace. The American people will respond to bold and constructive leadership with unselfish devotion and dedication.

Mr. Secretary, I urge that you help provide such leadership by reshaping our foreign policy so as to accent the positive struggle for peace, with major emphasis on an adequate and imaginative long-range program of economic and social construction. Specifically, I urge that you ask the support of the American people and Congress for a program to give substance and strength to a total

peace offensive. To do this I respectfully suggest the following points:

# 1. WORLD FUND FOR PEACE, PROSPERITY, AND PROGRESS

The people of the United States, through their Government, commit themselves to contribute to a world fund for peace, prosperity, and progress, a sum equal to 2 percent of the gross national product of the United States for a period of 25 years for the purpose of helping peoples of the economically less developed nations to help themselves in developing their own economic resources and raising their standard of living, their standard of health, and their standard of education.

Two percent of our present gross national product for a 25-year period would be less than what 7 months of World War II will have cost the American people in terms of dollars, not counting the priceless and inestimable loss in human lives and human values. While urging a reduction of all forms of armaments under a system of effective and universal control, this United States 25-year commitment should be made without qualifications and would be effective without regard to the success or failure of disarmament efforts.

If disarmament efforts succeed, as we all pray, then the United States would express its willingness to share the economic savings made possible by a reduction in the military budget by contributing 50 percent of these savings to augment the fund provided by the 2-percent gross national products allocation. Such a sharing of the savings made possible by reduction in armaments would be for the same

25-year period.

#### 2. U. S. S. R. SHOULD BE URGED TO PARTICIPATE

To give substance and to build upon the Geneva spirit, the United States would request the U. S. S. R. to make a similar commitment to the world fund for peace. prosperity, and progress equal to 2 percent of the gross national product of the Soviet Union for a period of 25 years. Further agreement should be sought to have the U. S. S. R. commit itself to sharing on a 50-50 basis the economic savings that would result in a reduction of arms spending. All other nations able to contribute to the world fund for peace, prosperity, and progress should be

urged to do so within the limit of their resources.

With both the United States and the U. S. S. R. participating in such a proposal, we could usher in an era of peaceful competitive coexistence with each of our two social system having an opportunity in terms of peacetime values to demonstrate its worth. Thus the people of the world would have an opportunity to measure political propaganda against practical performance. Such a contest would demonstrate which economic and social system could build and make available the most efficient nuclear reactor for man's peaceful use rather than which could build the most devastating nuclear bomb for man's destruction. In such a contest of peaceful values, I am confident that the free world has a margin of superiority, for only in an atmosphere of freedom can the creative genius of the human spirit find full expression.

# 3. PROGRAM ADMINISTERED THROUGH U. N. AND MULTILATERAL AGENCIES

The United States should propose that the World Fund for Peace, Prosperity, and Progress would be administered through the United Nations either through existing special agencies or through the creation of a new special agency so that the broadest possible multilateral approach can be made to the problem of economic and social construction.

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#### 4. SHARING OUR FOOD ABUNDANCE

In a world half-fed and half-starving, America's food abundance must be considered a great blessing. Much of the world suffers from a serious food shortage and so long as people are hungry and exist on inadequate diets, America cannot consider that there is a food surplus. The best, most sensible and moral place to store food surpluses is the empty bellies of half-starved people.

This generous share of our food abundance over a long period, until the economically less developed areas of the world can adequately increase their own food supplies, would release the spiritual force of human solidarity, which would be of greater power than all the H-bombs in our stockpile. Provisions could be made to insure that the distribution of America's food abundance would be used to raise and improve the diets of needy people under arrangements that would not dislocate the economy of any country that exports grains or food-stuffs,

# 5. CREATION OF A FEDERAL SCHOLARSHIP PROGRAM TO TRAIN TECHNICAL TASK FORCE

The United States should create a federally financed scholarship program to expand and to expedite the training of competent and desperately needed scientists, doctors, engineers, teachers, and technicians to serve as a technical task force wherever needed and desired to help carry out the program of the World Fund for Peace, Prosperity and Progress.

Students should be awarded scholarships on the basis of competitive examinations. Upon the completion of their schooling within their respective fields of choice and in keeping with the high academic standards required, these young Americans will have contracted to serve in any country where their training and competence is needed and desired to implement the program of the World Fund for Peace, Prosperity, and Progress. Such service as a technical missionary would be for a period of 1 year greater than and in lieu of their normal military service.

There can be no doubt that the more young Americans we are prepared to train and send abroad as a technical task force in the positive struggle against poverty, hunger, ignorance, and disease equipped with slide rule, textbook, and medical kit—the tools of peace—the fewer we will need to send abroad with guns, flamethrowers, and the weapons of war.

The cost of this scholarship program shall be charged against the 2 percent of our commitment of gross national production.

# 6. ECONOMIC AID AVAILABLE EQUALLY TO UNALINED AS WELL AS ALINED NATIONS

United States economic aid should be made available to every free and independent nation without any political strings whatsoever. Aid should be made available both in loans and outright grants on the basis of need, giving equal consideration to nations who choose to join alliances and those who choose to remain unalined.

Totalitarianism may insist upon political conformity but the free world must achieve unity in diversity. Such a clearly defined and executed policy will dispel both by words and deeds the confusion and concern of our friends in certain of the unalined nations. America must make it clear that we have no desire to remake others in our own image; that our only motive is to build and strengthen a just and lasting peace and to make freedom and social justice universal.

# 7. UNITED STATES AID AVAILABLE AT ONCE

While the United Nations is considering the creation of the World Fund for Peace, Prosperity, and Progress, the United States shall begin at once to make its contribution of 2 percent of its gross national product and shall cooperate in expending these funds through existing multilateral agencies such as SUNFED, the Colombo plan, and such other multilateral agencies wherever possible and practical.

# 8. LONG-RANGE ECONOMIC COMMITMENTS

Long-range economic commitments are essential in dealing with long-range economic problems. Outright grants should be made where the need is great and urgent, on a commonsense economic approach. Loans should be long-term with low interest rates and repayable in trade or currency at the option of the nation receiving the aid. There should be a moratorium on the payment of

interest and principal until living standards of a nation receiving such aid have been raised to the level adequate to provide basic living necessities in food, clothing, shelter, health, and education.

#### 9. ANTICOLONIALISM

The hundreds of millions of people in the economically less developed nations need our economic aid but their need for our friendship and our understanding is equally great. Some of these people have just won their struggle for political

independence while others are still engaged in that struggle.

In many areas of the world where men struggle to be free, they borrow the slogans and they draw inspiration from the American Revolution. Millions are dedicated and determined to give life and meaning to the words, "All men are created equal." Washington, Jefferson, and Lincoln are their heroes. Unfortunately, some of these people, while following in the footsteps of the American Revolution, feel that America's material prosperity has dimmed our image of our own revolution and has weakened our faith in its principles. We need to dispel this doubt and, by word and deed, reaffirm America's devotion to the ideals of human freedom and the worth and dignity of the individual which inspired the American Revolution.

We need to speak out clearly and act courageously against all forms of colonialism. We need to make it unmistakeably clear regardless of our military alliances that we are opposed to all forms of colonial domination on moral grounds and that we support the rights of all people to political independence and self-determination.

## 10. RACE RELATIONS AND EQUAL OPPORTUNITY AT HOME

Moral stature is an indispensable ingredient to the nations who would share in the leadership in the free world. Our moral standing will be judged by the peoples of the world, not by our slogans but rather by how we meet the challenge of providing equal opportunity of political and economic citizenship to all

Americans, regardless of race, creed, or color.

One-half of the world's people are dark in skin and their experience with the white man, most of which took place during a period of colonial domination, has been a bitter one. They look to America and they shall pass moral judgment on America by the degree of moral courage and enlightened responsibility that we apply in ending discrimination and second-class citizenship in America.

The full implementation of the historic decisions of the Supreme Court offer us an opportunity to demonstrate America's continuing dedication to moral concepts and human values. Only thus can we square American democracy's practical performance with its noble promises in the field of race relations. Only thus shall we be able and worthy to contribute to moral leadership in the free

world.

This is an election year, and election years are supposed to breed timidity World events and human needs, however, will continue to move and caution. and continue to demand our attention. There is no reason to suppose that the American people are not acquainted with this simple truth. Nor is there any reason to believe that the American people, regardless of party labels, will shrink from commitments that are necessary, that are honestly explained, and seriously advanced in the search for an honorable and durable peace.

The committees of Congress will shortly be holding hearings on economic Upon your return from southeast Asia, you can reach the American people through these committees and directly. You can tell them where we stand in the unalined reaches of the world. You can appeal to Congress and the people for a reversal of the trend that runs to military preparedness almost to the exclusion of the economic support without which crucial areas of the earth may

falter, nullifying the effect of all our alliances.

The American people will listen and they will sanction the boldest action geared to those positive peacetime ends. For they will understand that the costs of such a program will ultimately be reckoned not in dollars and cents alone or primarily, but in millions of lives spared, in nations not devastated by hydrogen-bomb attack, in civilization saved from ruin, in humanity freed for action in the never-ending and rewarding tasks of peace.

Sincerely yours,

# APPENDIX D

[From the Washington Post and Times Herald of April 30, 1956]

# LODGE ASKS AID THROUGH U. N.

## By Rex Harrelson

UNITED NATIONS, N. Y., April 29.—Ambassador Henry Cabot Lodge, Jr., said: today the present world situation requires the United States to channel a larger share of its foreign aid through the United Nations.

In meeting the challenge of the new Soviet competition, he said, such a movewould offer "some real advantages over a program sponsored by the United States

alone."

"Multilateral aid," Lodge added, "offers a way to prevent the so-called auction which some are trying to promote between the United States and the U.S.S.R.

as to which will spend the most in an underdeveloped country."

The chief United States delegate outlined his views when asked about the current reappraisal of the foreign-aid program now under way in Washington. His statement was the strongest indication to date that the Eisenhower administration might divert substantial amounts of economic aid through the U. N.

#### UNITED STATES CHIEF SUPPORTER

It has been known, however, the administration was concerned both by the stepped-up program of Communist economic aid and by increasing criticism of the United States bilateral aid program.

Asian leaders have been pressing for a new emphasis on multilateral programs. particularly those of the U. N. technical-assistance program and the proposed

special U. N. fund for economic development.

Up to now the United States, although the major supporter of the U. N. aid program, has channeled only a tiny segment of its foreign aid through this Russia has given little more than token contributions.

The United States, for example, gave \$15.5 million toward the 1956 U. N. technical-assistance program in comparison with \$153 million spent on its bilateral point-4 program. Russia contributed nothing to the program until 1953. and has since given only about \$1 million a year.

## BID TO RUSSIA TOO

Lodge's statement was a bid for Russia, as well as the United States, to join in pooling more of their aid under U. N. supervision. He expressed the belief the proposed move would offer special benefits to the recipient countries.

One advantage, he said, is that a sound multilateral program would provide "no cover for engaging in political penetration, which is what the Communists

do and which we are unjustly suspected of wanting to do."

Lodge suggested that U. N. technicians, sent into the underdeveloped countries, might be given special uniforms which would make it difficult for them to engage in "surreptitious political activity."

The Russians have supplied few technicians under the U. N. program. In 1955, for example, out of 564 experts supplied by the U. N. only 5 were Russian.

The United States supplied 95 and Britain 84.

Lodge said the United States should maintain both bilateral and multilateral programs.

#### POINTS TO WORLD STATUS

"But," he added, "the present world situation is one which requires our giving new emphasis to multilateral programs. We can do this without any additional expense by diverting a percentage of our foreign-aid funds to multilateral channels."

Allocation of substantial increases to the U. N. would raise several questions in Washington and in the world organization.

In the past, the United States has insisted on a matching arrangement under which it would contribute no more than 53 percent of the total technical assistance. A question, therefore, would be whether the United States would raise or abandon this ceiling in the event other countries would match larger United States contributions.

Another would be whether the United States would drop its opposition to the U. N. special development fund and start it off with a substantial contribution.

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Refusal of countries like the United States and Britain to support the fund has been responsible for the long delay in its establishment.

#### APPENDIX E

# AID TO ECONOMICALLY UNDERDEVELOPED COUNTRIES

The subcommittee of the ICFTU executive board, which met recently in Brussels, decided to launch a campaign for the establishment of a vast United Nations program of assistance to economically underdeveloped countries. calling consistent ICFTU support for the proposed U. N. fund for economic development (SUNFED), which has still not been set up, it insisted that the capital envisaged for that fund (\$250 million) should be considered only as a starting point for a much bolder program.

The full text of the statement which the subcommittee authorized the ICFTU

secretariat to issue is as follows:

"The subcommittee of the ICFTU, bearing in mind the necessity of treating the development of economically underdeveloped countries as a challenge to the whole free world and of seeking international solutions to this vital prob-1em-

"Recalls the determined stand which the ICFTU has always taken in favor of adequate assistance to economically underdeveloped countries, and in particular its vigorous and tireless efforts to secure the establishment of a special

United Nations Fund for Economic Development;

"Expresses its appreciation of the aid which the industrially advanced democratic countries, carrying the weight of important commitments in other fields and notably in the vital field of defense of the free world, have given to economically underdeveloped countries;

"Emphasizes, however, that in view of the needs of the underdeveloped countries it is imperative to increase substantially the total amount of financial

assistance to them;

"Expresses the view that the sum fixed as the minimum initial capital of SUNFED (\$250 million) should be considered as a starting point for a much

bolder United Nations program of aid to underdeveloped countries;

"Urges the establishment of a world food reserve to cope with current cases of distress due to famine and starvation, by extending to underdeveloped areas the benefits derived in the advanced countries from increasing productivity in agriculture;

"Declares that the United Nations with its specialized agencies should be the

chief channel of aid to economically underdeveloped countries;

"Decides to launch a campaign in favor of the establishment of a vast United

Nations program of assistance to those countries; and

"Calls upon affiliated organizations in industrially advanced countries to join in the campaign in favor of the establishment of SUNFED as the nucleus of a vast United Nations program of aid to underdeveloped countries and to urge the governments of their countries to support such a program."

## APPENDIX F

# INTERNATIONAL FOOD AND RAW MATERIALS RESERVE

(Excerpts from Remarks by Senator James E. Murray, March 30, 1955, Congressional Record, pp. 3412, 3416)

An international food and raw materials reserve can contribute to international economic stability; it can be a powerful instrument in the war against want in the free nations of the world; it can provide the export market for our national agricultural surpluses which are hanging over our domestic market and depressing farm prices; it can free our farmers to produce more and relieve the very real agricultural depression which we have today, and it can demonstrate the ability of the free world nations to work together for the betterment of the life of all.

The second section of the resolution declares it to be the desire of the Senate to establish an international food and raw materials reserve under the auspices of the United Nations, the World Food and Agriculture Organization, and other international agencies involved.

In 1954 the International Federation of Agricultural Producers, which is headed by Mr. Allan Kline, of the American Farm Bureau Federation, a worldwide organization of free farm organizations, meeting in Nairobi, Kenya, adopted

a report declaring:

"The matter of a world food reserve should be kept under active consideration and to that end the committee recommends that the secretariat prepare a study indicating the nature of the machinery needed to implement the plan and the obstacles that have stood in the way of attainment of this objective, and giving all possible suggestions as to how such obstacles might be overcome."

The matter is before the Economic and Social Council of the United Nations on motion of Costa Rica, which proposed a study of a food reserve agency.

It is to be expected that these agricultural groups would be in the forefront of efforts to establish an international food and raw materials reserve. They are plagued with producing countries with surpluses that are desperately needed in other parts of the world. They know that it is only the failure of our distribution machinery—our failure to match need with supplies—that causes so-called surpluses to pile up in the agricultural producing nations. They know that there are tens of millions of people in the free world ill fed and ill clothed who need every pound of cotton, every bushel of wheat, every pound of dairy products, or other agricultural commodity that we and other agricultural nations of the world can produce.

The Agricultural Trade Development Act of 1954, which is Public Law 480 of the 83d Congress, has excellent aims. But its weaknesses are apparent. It is a temporary program. Our farmers have no assurance that it will not be terminated like other foreign programs 2 years hence. Every commodity transaction under it is a separate, unilateral, international negotiation. There is no assurance of continuing outlets.

Low purchasing power in other countries, not overproduction in the United States, limits foreign demand for our farm products. There is no shortage of need for our present production, or increased production, of food and fiber. Half the world's people have just about enough food for minimum subsistence—barely enough for health by any decent standard. Only about one-third of the world population has enough food of the right kind to be well nourished.

The average life expectancy in India is only 27 compared to the United

States figure of 68.

In India 123 of each 1,000 babies born die in their first year. In the United States the figure is only 29 per 1,000. In Iraq and Egypt only 600 of each 1,000 babies that are born live to be 5 years old.

To bring the average world textile consumption per person up to only one-half the United States average of 38 pounds per year would require an increase in

world production of cotton and other fibers of almost 90 percent.

Population increase in the last 15 years has outrun increases in food and fiber production in the world as a whole and in many different countries of the world, particularly in southeast Asia, southeast Europe, northern Africa, Germany, and Austria.

The long-term solution to the present agricultural situation must be found in building up the purchasing power which will create expanded markets for both agricultural and nonagricultural goods, and this can be secured in an expanding world economy.

Through the International Food and Raw Materials Reserve, exporting nations can assure themselves long-term stabilized markets and importing nations can assure themselves of long-term supply at stabilized prices.

The history of all past civilizations tells us that expanding prosperity shared by the known world is the only basis upon which peace can be attained.

An international reserve can be a long, significant step toward the ultimate attainment of permanent world peace with honor, humanity, and prosperity. This could be our contribution.

This international institution, when established, could become the facilitating force to galvanize the free world into a vast, promising new era of great

abundance.

If history teaches anything, it is that islands of abundance in a starving world cannot long endure. History has a way of removing barriers and evening off such extremes of economic opportunity.

About a third of the world's people live in the United States, Western Europe, and other democratic nations that are relatively well developed and have fairly high incomes and living standards; another third live in countries behind the so-called Iron Curtain dominated by Soviet Russia and its police-state system of control.

The remaining third of the world's people—about 900 million of them—live in nations that have not yet made up their minds about democracy. These are the people of South and Central America, southeast Asia, Africa, and the Middle East. Here "stomach communism" holds out a glittering lure with its false promises of enough to eat.

These nations have not attained the economic development and higher living standards easily possible with modern technology and organization. Poverty is the rule in these countries, as indicated by the figures in a table which I ask to have printed in the record at this point.

There being no objection, the table was ordered to be printed in the record,

as follows:

Per person average annual real income in selected countries

[Figures from United Nations publications; for comparison, United States figure is \$1,900]

ASIA		SOUTH AND CENTRAL AMERICA	
Thailand	\$36	Argentina	\$340
Afghanistan	50	Venezuela	323
Burma	36	Uruguay	33:
Ceylon	36	Bolivia	5
India	57	Brazil	11:
Indonesia	25	Chile	189
Japan	100	Colombia	132
South Korea	35	Cuba	296
Philippines	44	Equador	40
MIDDLE EAST AND AFRICA		Guatemala	7′ 40
Egypt	\$100	Mexico	123
Ethiopia	38	Paraguay	84
Iran	85	Peru	100
Iraq	85		
Lebanon	125		
Pakistan	51		
and the second second			_

This multilateral international project can move swiftly, creating a new, cooperative bond among the free peoples of the world, if the United States will participate in negotiations.

I can think of no single project in the field of international relations that would do more for the economy of this Nation than the creation of international distributive machinery that would assure us markets for surpluses which are desperately needed abroad.

Nor do I know of any action we might take that would strengthen the alliance of free peoples against communism more than the creation of an international agency that will permit and speed economic development in all of them and make us all true partners in progress toward worldwide abundance.

The CHAIRMAN. We will have to recess, and I regret it very much. If the witnesses, other than those who have a prepared statement to

put into the record, want to be heard personally, we will recess until

(Whereupon, at 12 noon, the committee recessed, to reconvene at 2:30 p.m., of the same day.)

# AFTERNOON SESSION

Senator Sparkman (presiding). Let the committee come to order,

please.

We will get started. Other members of the committee will be coming in later, and as we have no way of knowing when we may be interrupted by rollcalls, I think we had better move right along.

Mr. Schnitzler, will you come around, please, sir? I understand

you have to catch a plane to New York.

Mr. Schnitzler. Yes, sir.

Senator Sparkman. Just proceed in your own way. We have your prepared statement. You may read it into the record, or, if you prefer, it can be printed in the record and then you can talk the way you want to. Just make your presentation as you wish.

STATEMENT OF WILLIAM F. SCHNITZLER, SECRETARY-TREASURER, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS; ACCOMPANIED BY GEORGE BROWN, DIRECTOR, DEPARTMENT OF INTERNATIONAL AFFAIRS; AND ANDREW J. BIEMILLER, LEGISLATIVE REPRESENTATIVE, AFL AND CIO

Mr. Schnitzler. Senator Sparkman and members of the committee, we are deeply appreciative of this opportunity that has been granted to me to appear before this committee.

My name is William F. Schnitzler. I am secretary-treasurer of the American Federation of Labor and Congress of Industrial Organiza-

tions, with offices at 815 16th Street, NW., Washington, D. C.

I am accompanied by Mr. George Brown, director of our department of international affairs, and Mr. Andrew J. Biemiller, one of our legislative representatives.

The American Federation of Labor and the Congress of Industrial Organizations is testifying today, for the first time, as a merged organ-

ization, on mutual security legislation.

Mr. Chairman, I have a statement here, and rather than take up your valuable time, I would like to submit this statement for the record.

As I said previously, I have with me the director of our department of international affairs, Mr. George Brown, who has just returned from an official visit to Germany, where he had made a number of observations on the benefits that have been gained for the people of that country through our aid; and, if it pleases you, I would like to have you call upon him or give him the privilege of giving the committee the benefit of some of his observations.

Senator Sparkman. We will be very glad to do that, and your state-

ment will be printed in full.

Now, understand, I was not trying to get you to do that; I was just suggesting to you that you proceed as you wished.

Mr. Schnitzler. I think it was a very good suggestion, Mr. Senator, and we acknowledge the way you are pressed for time; and to have this statement appearing in the record as it is will be sufficient to cover this thought.

Senator Sparkman. It will be placed in the record in full.

Mr. Brown, proceed as you see fit.

## OBSERVATIONS ON VISIT TO GERMANY

Mr. Brown. Several days ago I returned from a 4-weeks intensive visit in Germany. During this visit, I met formally representatives of management, labor, and government. Informally, I met people on trains, planes, and so forth, who knew only one thing, that I was an American.

In each and every case, there was one clear fact: No. 1, they were very proud of the miracle of the German recovery, but with equal emphasis they were grateful for the aid given to them by America under the Marshall plan. And, without exception, each and every person said, "Our recovery would not have been possible had it not been for your generous aid."

They were at times perplexed as to why a victorious nation should

help a defeated nation, and they said, "I guess that's American."

Well, that was true.

Now, as I visited the plants and the manufacturing areas, one thing was pointed out to me consistently: that this new machinery I saw was from America, and this was part of the Marshall plan aid in a

tangible form.

This fact struck me, because I think in America, too many people believe that as soon as you mention foreign aid, they think of bundles of dollars being wrapped up in packages and sent to some foreign country. They overlook the fact that foreign aid is a stimulant to the American economy.

It means higher employment, greater profits, and greater productiv-

itv.

Senator Sparkman. Mr. Brown, your mentioning of your experience recalls an experience I had at Rotterdam in 1949. The Marshall plan was just in its third year then. Some of the officials of the Government—there were five members of the Senate there together—took us around the harbor in a boat, and you could see all of the cranes and the various machinery and equipment used in that busy harbor, and the Minister of Interior said to me, "You see all of those?"

I said, "Yes."

He said, "When Germany pulled out of there, there was not a single one." And he said, "We never could have rebuilt this had it not been for the Marshall plan."

And I remember saying to him, "Well, you know, that program is due to end in 2 more years," I think it was. "Will you be fully recovered by that time?"

He said, "No, but we will be far enough along that we can do the

rest of it by ourselves."

You may remember that Holland was one of the nations which, even before the Marshall plan came to an end, announced that it needed no more aid.

Mr. Brown. Well, that point is very pertinent, because the Germans with whom I spoke said, "We have used these capital funds with one

idea in mind, and that is, not only to promote our own economic recovery, but to enable us to repay to America the moneys which they have

loaned us."

And I learned from them that a substantial portion of all the Marshall plan aid funds were loans and not grants. And yet, I thought that this indicated a certain dignity on the part of the Germans which I certainly respected.

This word "dignity" stimulates me further to say this: In America, in our press, there is a great deal of loose conversation about the difficulties of foreign aid, and normally these difficulties boil down to two: (1) that when you aid a person he loses his dignity; and (2) that

American aid has strings fied to it.

Well, I am limited only to my experience in Germany, but let me assure you that the Germans have lost no dignity because they were aided by America in a time of need.

Senator Sparkman. Did you by any chance hear the speech vester-

day by the President of Indonesia?

Mr. Brown. I did not, I am sorry. I was tied up.

Senator Sparkman. If you have not read it, I suggest you do so, because I think he gave a very fine demonstration of the maintenance of dignity, sovereignty, and self-respect while accepting aid without strings.

Mr. Brown. Well, now, on the matter of strings-

Senator Sparkman. I may say, I heard nothing except admiration

expressed for the speech that he made.

Mr. Brown. Well, I think the people of Germany demonstrate that condition in fact. They are dignified people. They have accepted aid. and they are now ready, willing, and able to start the repayment.

Senator Sparkman. In other words, aid, if properly administered,

can be given on a dignified basis?

Mr. Brown. Precisely. Now, in relation to the strings argument that I read in the papers so much, I suggest that the recent action of the German Parliament when, by a two-thirds vote, they decided to join with the West in the defense of freedom, was an action by a people who very carefully debated the issue.

They have been accused of militarism. They had reaped the terrific price of being under a military dictatorship, and they had a pretty

sorry experience.

Nevertheless, when faced with "Where are you going?" they went West, and I don't think that that decision on their part was made simply because of aid. They recognize in America a friend, and they wish to be with them.

These, in summary, were my basic conceptions of my visit to Germany in relation to the foreign aid program: I don't see these dangers of strings or loss of dignity. I didn't see them there, where this program, I think, has been preeminently successful.

Thank you for this opportunity. Senator Sparkman. Thank you.

Mr. Biemiller is an old colleague of mine in the House of Representatives. We are glad to have you with us, Andy.

Mr. Biemiller. Thank you, Senator.

#### IMPLEMENTING ARTICLE II OF NORTH ATLANTIC TREATY

Mr. Chairman, one section of the formal report I would like to just briefly comment on, the formal statement, rather. It calls attention to our interest in trying to implement article II of the NATO Treaty.

We believe that it is important that the talk that has been going on of the possibility of really beginning to use the NATO organization for economic purposes as well as for purely political and military purposes has real value.

You probably know, Senator, that, for example, before the Iron and Steel Community was started there was a conference of the trade-union leaders of the respective European countries in iron and steel.

They have been most enthusiastic.

There has been provision made in the Iron and Steel Community for direct participation of the trade-union representatives of the

several countries comprising that organization.

We think that a very good pattern has been set here, and we make it clear that we in the AFL-CIO, as you know, are cooperating with the free trade-unions throughout the world, and we hope that as these new economic patterns develop, partly out of aid, partly out of NATO, that there will be full use made of the free trade-unions and other economic organizations in the free world as these programs are developed.

We have found that wherever the trade unions are given an opportunity to participate, that the economic organizations and the economic recovery that results from them have been strengthened.

And we hope that that pattern will continue in the future.

Senator Sparkman. Well, thank you very much.

Anything further, Mr. Schnitzler?

Mr. Schnitzler. I think that covers as much as we have to present. Mr. Biemiller. Mr. Chairman, one purely technical point. In the formal statement there is a request that we also be permitted to add to the statement the full text of the AFL and CIO convention resolution on foreign policy. We will submit that to the clerk.

Senator Sparkman. I suppose it is not too long; is it?

Mr. Biemiller. Oh, no.

Senator Sparkman. That will be done. Thank you very much.

(Mr. Schnitzler's prepared statement and the resolution referred to are as follows:)

STATEMENT OF WILLIAM F. SCHNITZLER, SECRETARY-TREASURER, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. Chairman, my name is William F. Schnitzler. I am secretary-treasurer of the American Federation of Labor and Congress of Industrial Organizations, with offices at 815-16th Street NW., Washington, D. C. I am accompanied by Mr. George Brown, director of our department of international affairs and Mr. Andrew J. Biemiller, one of our legislative representatives.

The American Federation of Labor and the Congress of Industrial Organizations is testifying today—for the first time—as a merged organization, on mutual-

security legislation.

What we have to say here, however, represents no basic departure from firm beliefs which have been expressed separately by the American Federation of Labor and by the Congress of Industrial Organizations since programs of foreign aid and technical assistance were first undertaken by our Government. The views of our organization are, instead, the logical extension of these beliefs.

# URGENCY OF MILITARY AND ECONOMIC AID PROGRAMS

We believe that the importance and the urgency of military and economic foreign aid programs which we have previously endorsed are underscored by recent developments on the international scene. We are witnessing the spectacle of present-day emissaries of the Communist conspiracy as they maneuver with fresh weapons from their arsenal. These international carpetbaggers, while masquerading as benevolent big givers and purveyors of peace, are offering such inducements as cut-rate arms to the Middle East, a multimillion dollar loan to Afghanistan or a hydroelectric dam in Egypt. At the same time, we hear from them the ominous warning that the Soviet Union, leader of the conspiracy, has made far-reaching advances in the development of hydrogen missiles. Soviet diplomacy is undergoing a face lifting, with new emphasis on economic action particularly in the underdeveloped regions of the world.

# CONFLICT BETWEEN DEMOCRACY AND COMMUNIST TOTALITARIANISM

On this point the founding convention of the AFL-CIO in New York, December

1955, stated:

"Unlike preceding international crises, the present struggle between the Communist dictatorships, and the free world is not a collision between two power blocs, in the old 19th century sense, but between two conflicting ways of life—democracy (despite all its imperfections), and Communist totalitarianism with its all-embracing program of world conquest and transformation. Soviet imperialism seeks to subvert and conquer the free world and remold all society in line with Communist preconceptions of a new social order. This vital difference between the old imperialisms and the new Soviet imperialism accounts for the continuous character of the present crisis as distinct from preceding ones."

In the face of these events, it is extremely urgent that our Government fashion a foreign policy that can meet the military, economic, and political challenge of our time. There must not be any reduction in our military preparedness and consequent weakening of our national strength. We must provide an adequate economic aid program to the friendly peoples of Asia, Africa, and Latin America. As long as the threat of Soviet expansion continues to exist, we must provide our allies with adequate military strength to deter aggression. The lesson of Soviet duplicity is clear for us to see; it would be dangerous and well-nigh fatal for the free world to let its guard down at this critical juncture in world history.

Indeed as long ago as 1949 the AFL convention stated that:

"Hunger and poverty and despair are the strongest allies of dictatorship and war. The surest way of safeguarding democracy, security, and peace is to raise the standards of living of the peoples of the earth. As the leading democratic country and the nation with the highest industrial development, we have the greatest moral and material responsibility for helping the peoples of the world to harness modern technology in the service of human well-being, peace and social progress and international harmony \* \* \* The struggle between the forces of human freedom and the battalions of totalitarian despotism for the souls and minds of men is fast approaching the hour of decision."

It is dangerously foolish to deceive ourselves, to become complacent, to accept rosy statements that all is well with the world. Crises ranging from the exploding Middle East to Indonesia bear sharp contradiction to the sunny optimism. And we can be assured that the supersalesmen of the Soviet Union—their territory the world—are moving with their sample bags of weapons, commodities, and

other special projects to ensnare the unwary.

### SUCCESS OF THE MARSHAIL PLAN

What can be done to meet the challenge? If we are to lead the free world in the contest going on, we must be prepared to intensify our own offensive in the cause of freedom, peace, and social justice. In the early years after the Second World War, the United States moved swiftly, brilliantly, and with telling results. As the CIO noted during its 1950 convention:

"The continuing success of the European recovery program in most of the participating countries is a source of considerable satisfaction \* \* \* The disappointments with the results accomplished in a few of the countries are accented by the manner in which they stand out against the larger background of the

program's general success."

MORE CONSIDERATION URGED FOR NONMILITARY SECTIONS OF NORTH ATLANTIC TREATY

In Europe today, the ERP stands out as a monument to enlightened and forceful American statesmanship. Together with establishment of the North Atlantic Treaty Organization, it immeasurably strengthened Western unity. Today, direct economic aid has shifted from Europe to other regions of the world. We strongly hope that the nonmilitary sections of the treaty setting up NATO will receive more consideration than has hitherto been accorded to them.

On this point the AFL-CIO convention declared in New York, in December 1955, "This implementation of the London-Paris accords should be combined with a program to enable NATO to fulfill not only its primary purpose as a military defense body but, in addition, as an organ for greater economic and political cooperation in advancing peace, human rights and improved living standards."

NATO must be developed beyond a purely military alliance. In setting up article 2 of the treaty calling on member nations to "promote conditions of stability and well-being," the drafters were foresighted. The task in Europe is by no means completed. Integrated economic assistance—mutually organized by NATO can give greater substance to the concept of a real unity in Western Europe We believe that those Senators who sponsored Senate Concurrent Resolution 12 and others should be applauded for their efforts on behalf of a revitalized North Atlantic Treaty Organization.

#### THE MARSHALL PLAN

Several years have elapsed since the enunciation of the Marshall plan as a means to share abundance, strengthen freedom, and attain peace. There has been an opportunity to analyze its effect. The American labor movement has not withheld its criticism of certain phases and operations of the European recovery program, notably of the agonizingly slow rate of transformation of aid funds into "bread and butter" benefits for European workers and farmers. The existence in France and Italy of large numbers of workers who are under Communist domination is witness in part to the tasks ahead. There can be little disagreement, however with one salient fact: The foreign aid program in Western Europe gave that vital area much needed help which aided it to recover from the ravages of war and steel itself against the threat of expansion by the Soviet Union.

## KEY CRITICAL AREA IS THE UNDERDEVELOPED REGIONS

Today, the key critical area crisis is in the underdeveloped regions of the world. More than two-thirds of the world's population inhabit these areas in Asia, Africa, the Middle East, and Latin America. Millions of these people live in squalor and human degradation almost beyond description. In these areas are the countries very recently come to independence and many territories whose inhabitants are striving for national freedom. No reasonable man can deny that the problems springing from these complex aspirations of nationalism and the desire for social betterment are enormous and extremely difficult. But it is precisely here that the battle lines of democracy and freedom versus communism and totalitarianism are becoming tightly drawn. It is precisely here that human misery in the form of abysmal poverty, pitiful health conditions and woeful housing provide the easy path of exploitation by the Communist imperialism.

#### POINT 4

In the point 4 concept, the United States made a good but too modest beginning. I am sure that you have heard innumerable pages of testimony which illustrate the great achievements made in the various technical assistance projects directly undertaken by our Government or through the United Nations, designed to improve agricultural output, raise the standards of health, and close, if ever so little, the gap between the "have-not" nations and the "have" nations. There are many wonderful reports of the work of American trade unionists, farm experts, scientists, and educators who have carried the point 4 banner to distant lands and established the kind of "shirt-sleeve," person-to-person relationships that could revolutionize modern diplomacy.

<sup>&</sup>lt;sup>1</sup> Senators Kefauver, Flanders, Humphrey, Jackson, Lehman, Long, McNamara, Murray, Neely, Neuberger, O'Mahoney, Payne, Scott, Sparkman, and Mansfield.

## NEED FOR CONTINUITY IN ECONOMIC PROJECTS

At this point, we would also like to suggest that, in view of the need which rises in connection with large scale economic projects, some device must be found which assures a measure of continuity in these programs from one Congress to another. Obviously many programs of economic aid take more than a year or two to complete.

## GREATER EMPHASIS ON MULTILATERAL AID STRESSED

We also believe greater emphasis should be given to multilateral programs. We have already pointed to the need for enlarging NATO's economic potential through implementation of article II of the treaty. In the same spirit, we urge more effective use of the United Nations and its specialized agencies. As one example, the AFL-CIO convention in December 1955, suggested that the "Special United Nations Fund for Economic Development (SUNFED) provides real possibilities for the fundamental improvement of the economic conditions of needy peoples \* \* \*."

The multilateral approach, moreover, makes use of instrumentalities in the form of permanent international organizations, where the principle of con-

tinuity is emphasized and, perhaps, can be more readily implemented.

In summary, I would like to commend to the attention of this distinguished body a number of cardinal principles of international, constitutional policy set forth by the first convention of the American Federation of Labor and the Congress of Industrial Organizations, in December 1955, which bear on the question of mutual economic and military security of the free world. I submit a copy and request that it be made part of the record.

# FOREIGN AID MUST PROVIDE LASTING BENEFITS FOR WORKERS

We would like to reiterate one salient principle. No foreign aid program—bilateral or multilateral—can be truly meaningful unless it can be translated into real and lasting benefits for those who toil. Recovery and rehabilitation, industrial development, and technological progress will remain surface manifestations until their fruits are more fully shared by the working people of the world. That is why free trade unions must be encouraged throughout the world. The American labor movement wil not be idle observers of the struggles of workers everywhere, to advance their standards of living, to attain and to maintain their freedom. In concert with free trade unions everywhere, we shall do our part.

# RESOLUTION ON FOREIGN POLICY

Adopted at the first constitutional convention of the American Federation of Labor and Congress of Industrial Organizations at New York City December 5-8, 1955

The united American trade union movement, in common with labor everywhere, has the greatest stake in the preservation of peace and the promotion of freedom. Approaching the international crisis as patriotic citizens and free trade unionists, we have the highest interest in building a world free from all dictatorship, poverty and war.

The free trade union movement cannot thrive, or even live, without democracy. In view of the enormous Communist threat to democracy, we of American labor face new significant tasks. At this critical juncture of history, we are in duty bound to help our country meet its heavy responsibilities as a powerful force for the attainment of lasting world peace, freedom and human well-being.

# AREAS OF AFI-CIO ACTIVITIES TO AID U. S. TO FULFILL ITS NEW HISTORIC ROLE

We of the united American labor movement—the American Federation of Labor and Congress of Industrial Organizations—have three main areas of activities in our efforts to aid our country in the fulfillment of its new historic role. These are: (1) Through our trade union strength and political actions, help build an ever better and stronger America, a prosperous and progressive land free from economic and social inequity and all racial and every other form of discrimination; (2) through democratic processes, help our Nation evolve and

execute an effective democratic foreign policy: (3) through cooperation with and assistance to the International Confederation of Free Trade Unions to aid free labor everywhere in becoming a most powerful force for furthering social justice, national and human freedom, economic well-being and world peace.

On the threshold of the atomic age, the readiness and ability of the unified American labor movement to fulfill these basic tasks are especially important for the security, welfare and liberty of the entire American people and the international free trade union movement. The policies and the practices of the AFL—CIO can also be a source of great hope for the peoples behind the Iron Curtain and in the economically underdeveloped countries aspiring to national independence and human freedom and dignity.

## SOVIET POLICIES AND AIMS

At the "Summit Conference" in Geneva in July 1955, the leading democratic powers demonstrated their determination and readiness to secure international harmony and lasting peace. But at the Geneva Conference of the Big Four Foreign Ministers, November 1955, the Soviet Union demonstrated that it was willing to do little or nothing to remove, or even reduce, the causes which have produced the acute international tension of the last decade.

The U. S. S. R. has categorically rejected German national reunification in freedom—the holding of internationally supervised free elections throughout the Soviet Zone and Berlin as well as the Federal German Republic. The latest reaffirmation of Soviet opposition to adequate international inspection and supervision has dealt a severe blow to the prospects for effective disarmament Soviet insistence on the dismantling of NATO and the WEU as well as on the

Soviet insistence on the dismantling of NATO and the WEU as well as on the withdrawal of American defense forces from Europe shows clearly that Moscow is not interested in security for the weaker nations but is maneuvering to render defenseless the remaining free countries of Europe.

Despite its "big smile" and big talk about removing the barriers to communications, Moscow is as unrelenting as ever in its opposition to any arrangement for free travel of individuals between the Soviet orbit and the free world. It is no less hostile to the reciprocal distribution of foreign books, newspapers, periodicals, and radio programs in the Soviet Union. This Soviet talk has been fully exposed at Geneva as having but one aim: The elimination of all barriers to the Moscow-Peiping axis securing from the western democracies the latest technical knowledge, strategic materials, and up-to-date machinery it so sorely lacks. The Communist bloc desperately needs such vital assistance in order to ease the terrible armament burdens behind the Iron Curtain and to facilitate its building of a most modern and even more massive war machine for aggression.

Indeed, at the very moment that the Foreign Ministers were negotiating at Geneva, the Kremlin brought to a head one of its long-cherished and carefully prepared plans to provoke an armed conflict between Egypt and Israel and promote aggravated tension throughout the Near East. Mastery of this pivotal region is essential to the ultimate and unalterable aim of Communist imperialism—Soviet world domination.

# AFL-CIO OPPOSITION TO ALL FORMS OF DICTATORSHIP

Unlike preceding international crises, the present struggle between the Communist dictatorships and the free world is not a collision between two power blocs, in the old 19th century sense, but between two conflicting ways of life—democracy (despite all its imperfections) and Communist totalitarianism with its all-embracing program of world conquest and transformation. Soviet imperialism seeks to subvert and conquer the free world and remold all society in line with its Communist preconceptions of a new social order. This vital difference between the old imperialisms and the new Soviet imperialism accounts for the continuous character of the present crisis as distinct from preceding ones. The AFL and the CIO have notable records of opposition to world communism and Soviet imperialism. Both have also resolutely opposed Fascism, Nazism, Falangism, Peronism, and every other form of dictatorship. The united organization that has grown out of the merger of the two American trade union centers will not slacken in that opposition.

Fortunately, the American labor movement has not limited itself to verbal assaults on fascism and communism and rhetorical affirmations of democracy. It has been in the forefront of many constructive undertakings to aid the cause of free trade unionism everywhere. We have also in the International Confed-

eration of Free Trade Unions, a practical instrumentality for engaging and defeating the totalitarians in the fields and factories, on the ground where they have made their greatest bid for the allegiance of the peoples of the world.

# OBJECTIVES OF A SOUND AMERICAN FOREIGN POLICY

The main objectives of sound American foreign policy are: (1) to foster good relations with other nations in order to preserve and promote enduring peace and freedom and (2) to encourage mutually advantageous trade and other relations with other nations—in order to advance their common economic stability and social well-being.

In every country, there is a close interrelationship between foreign and domestic policy. Neither our Government, nor any other government, can consistently pursue a genuinely democratic foreign policy, if it pursues a reactionary domestic policy. No government which wages war against its own people at home—by denying them their rights and liberties and by depressing their standards of life and labor—can be truly peaceful toward the peoples abroad and be worthy of their trust. A government guilty of aggression against its own people tends to be aggressive against its neighboring and other countries: Now, therefore, be it

Resolved, Conscious of our responsibilities at this crucial period, the AFL-CIO herewith declare their support of the following guiding principles for an effective American democratic foreign policy and sound international labor relations.

# EFFECTIVE FOREIGN POLICY CANNOT BE IMPROVISED AND PIECEMEAL

1. Effective foreign policy cannot be improvised and piecemeal. It must have a clear and definite orientation and be consistent, sustained and vigorous in its application. Its motivating and paramount aims must be the mobilization of all our moral and material resources for developing a system of international relationships to maintain peace, protect freedom and national security, and enable a growing population to enjoy a rising standard of living.

# INTEGRATION OF OUR FOREIGN POLITICAL AND ECONOMIC POLICIES IS ESSENTIAL

2. Integration of our foreign political and economic policies is essential, if the great technical resources and mighty industrial potential of the United States are to be geared to increasing the productivity, raising the purchasing power, and improving the living standards especially of those economically underdeveloped countries which are devoted to human liberty and peace.

# U. S. MUST BE CONCERNED WITH NEEDS OF UNDERDEVELOPED COUNTRIES

- 3. Undeveloped and underdeveloped continents and regions, where many hundreds of millions nurse their grievances and their hopes—constitute a fertile field for Communist operations. In dealing with rudimentary human problems the world over, we must be concerned primarily with two immediate needs—the need for food, health, and irrigation in the underdeveloped countries, and the burning desire for independence and equality. By ministering to such fundamental needs we will be on firmer ground as we seek to win new adherents to the free world.
- 4. We know that communism is a false solution; we believe that democracy is the true solution. Communism is weakened when democracy is strengthened. The representatives of democracy must go out into the underdeveloped regions with specific plans, programs, and projects to help raise living standards, for helping to end all colonialism, for winning these peoples as equal members of the free world community. Thus we will make it possible for them to have a stake in the defense of a civilization worth defending.
- 5. Our country has done some of this. UNRRA was a beginning. American labor supported the Marshall plan because it was conceived and largely administered in this spirit. Point 4 was an imaginative gesture in the same direction but tragically all too little. Toward the same end, the Special United Nations Fund for Economic Development (SUNFED), provides real possibilities for developing and expanding worthy projects for the fundamental improvement of the economic conditions of the needy peoples. Our responsibilities include, but are not limited to, a firm and effective military defense of established positions against Communist subversion and aggression. Positive measures for social

and economic betterment are an indispensable part of the program for the

defense and victory of the free world.

6. Categoric rejection of any idea of imposing our form of government or economic system on any other nation and relentless opposition to the efforts of any power to impose its political or economic system on our country. Support for free peoples who resist attempted subjugation by armed minorities or by outside pressures on their free institutions is vital.

#### U. S. MUST OPPOSE ALL BRANDS OF DICTATORSHIP

7. While communism is currently the main totalitarian threat to freedom and peace, we must be equally opposed to every other brand of dictatorship (Falangist, Fascist, Nazi, Peronist, Titoist) as reprehensible foes of human dignity,

decency, and liberty.

8. Welcome as our allies self-reliant, independent nations held together by binding principles and cooperating for peace, freedom, and human well-being. Satellites or vassals herded together by fraud and force cannot serve peace and freedom. A common purpose, sense of urgency, and machinery for permanent cooperation are indispensable to the collective security of the allied free peoples. The struggle for peace and freedom demands not only military strength sufficient to deter and defeat aggression but the development of the alliance into an association of free peoples for positive political and economic cooperation and mutual assistance.

#### REJECTION OF COLONIALISM

9. Rejection of all colonialism—the old declining western as well as the new rising Soviet colonialism—should be cardinal to our Nation's foreign policy. In line with our national traditions, positive steps should be taken to help all peoples aspiring to self-government or national independence under conditions which will enable them to assume equal status among the free peoples of the world. All peoples—in Europe no less than in Asia or Africa—who have been subjected to the yoke of alien despotism should be encouraged in their efforts to regain the right of self-determination which will enable them to choose the form of government they desire and enjoy national sovereignty and the fundamental human rights proclaimed in the Charter of the United Nations.

#### CONQUESTS OF KREMLIN SHOULD NOT BE ACCEPTED

10. While never shutting the door to negotiations with Moscow, our country and its allies must build up their political unity, economic power, and adequate military strength. Readiness to negotiate is not appeasement. It takes courage to meet aggression. It also takes courage to seek patiently and persistently for peaceful and acceptable settlements. Appeasement of the demands of any expansionist power, however, only encourages and invites aggression. Hence, our Government should never assume as settled and final any conquests the Kremlin or any other totalitarian regime made through direct military aggression, threat of armed intervention, Communist subversion, aggression by proxy, or any combination of these methods.

11. In its efforts to lessen international tension and eliminate the vestiges of war bitterness, our Government should make the strongest effort to hasten the release of all hostages forcibly detained by Moscow—either as war prisoners, fighters for democratic rights, or as striking workers imprisoned after the Soviet armed suppression of the June 1953 revolt in the Soviet Zone of Germany and

in any other satellite areas.

## WORLD DISARMAMENT

12. Maximum efforts to seek gradual effective disarmament through adequate international inspection, control and supervision, backed by provisions for strong non-vetoable sanctions against all violators—with a view of ultimately assuring

abolition of the atomic and all other weapons of mass destruction.

13. Until such time as an adequate system of world disarmament has been attained, the security and freedom of our country call for the build-up of sufficient actual and immediately available military strength to deter and, if need be, defeat aggression. The defense efforts should be meshed with non-military economic efforts into a common program for assuring social as well as national security. Only a prosperous and progressive, as well as powerful, America can make effective and sufficient contributions to world peace, freedom and human well-being.

#### PEACEFUL UTILIZATION OF ATOMIC ENERGY

14. Invigorated efforts to promote international cooperation for enabling all mankind to share the benefits of the peaceful utilization of atomic energy and technique. To assure the people's sharing equitably in the benefits of the atoms for peace program, the free trade unions should be represented in the planning and setting up of such projects.

#### THE WESTERN HEMISPHERE

15. It is imperative that there be a marked expansion of cultural, political, and economic relations among the nations of the Western Hemisphere with a view of raising living standards, strengthening democracy, and enabling the entire New World to play a unified and greater role in the preservation of peace and the furtherance of freedom. An intensified effort to reinvigorate democracy is urgent in view of the recent defeat of Peronist totalitarianism in Argentina and the Communist-tainted regime in Guatemala.

#### ADVOCATING FREE ELECTIONS

16. In an effort to lessen world tension and remove dangers to world peace, the U.N. should adopt a universal policy of the holding of free elections in all divided and strife-torn areas with a view to employing peaceful means rather than war for establishing legitimate governments which are to enjoy full sovereignty. Despite continued Soviet opposition, the U. N. must persist in advocating free elections in the satellite states as well.

#### RECOMMENDATIONS ON THE MIDDLE EAST

17. Particularly in view of the recent grave developments in the Middle East, our country and its allies in concert with the United Nations should take positive steps to prevent aggression in the Middle East, to improve the economic conditions of its people and to promote peaceful relations among its various peoplesbased on mutual recognition of each other's national existence and territorial integrity. Toward this end, the AFL-CIO urges the United States, Britain, and France to reaffirm their Tri-Partite Declaration of 1950, and to implement it by enabling the Republic of Israel to obtain arms and all other means necessary for the maintenance of its territorial integrity and national independence. best interests of our country and the needs of world peace and social progress demand that our Government enter into a Mutual Security Pact with the Republic of Israel. Such a pact would be strictly defensive in character and would not be aimed at any neighbor of Israel. Such an American-Israel Mutual Security Pact might well serve as the model for similar accords between our country and the Arab lands, thus paving the way for a Middle East Mutual Security Treaty Organization embracing all the nations in this pivotal area, within the framework of the U. N. and dedicated to the furtherance of world peace and human well-being. Adequate economic, technical, and military assistance should be made available only to those governments supporting these aims and prepared to cooperate in the peaceful solution of such pressing problems as the plight of the Arab refugees and the undisturbed use of the Suez Canal. can labor greets the Histadrut as the dynamic force in the building of Israeli democracy. We further pledge ourselves to aid the development of free trade unions throughout the Middle East as the most effective instruments for advancing social progress, human freedom and stable peaceful relations among all the nations of this vital area.

# SUPPORT FOR U. N. AND SPECIALIZED AGENCIES

18. American labor supports the U. N. and its specialized agencies and believes that efforts to build the U. N. into a more authoritative and effective instrument for maintaining world peace and promoting the fundamental human rights proclaimed in the Charter of the United Nations should be redoubled. It is our firm belief that the specialized agencies of the U. N. have aided the peoples of the underdeveloped countries by bringing to them the benefits of health, saniation, and technical knowledge. These agencies have proven their worth to the cause of freedom and peace. We of the American labor movement pledge our continued support to ILO, WHO, UNESCO and other specialized agencies of the United Nations. Our Government should firmly adhere to the policy of

prohibiting the admission into the U. N. of any regime which (a) has been imposed on any nation by a foreign power, (b) which exercises effective control of the country only through denying its people the fundamental human rights specified in the U. N. Charter and (c) which is engaged in war or has been found guilty of aggression against the U. N.

## CULTURAL RELATIONS WITH PEOPLES BEHIND IRON CURTAIN

19. In accordance with our traditional stand, we favor cultural relations with the peoples behind the Iron Curtain—a curtain which we have always sought to lift and the maintenance of which the Kremlin continues to enforce. We are firmly convinced that if it were possible to have such an exchange of ideas and information among the peoples of both sides of the Iron Curtain, it would always work to the advantage of the democracies. It is not we but the totalitarian regimes who have every reason to fear any contrast between the free world and the plight of the peoples under dictatorships.

#### VISITS OF TRADE UNION DELEGATIONS

20. The AFL-CIO rejects, as a matter of principle, the idea of free labor sending delegations to any country which prohibits free trade unions, outlaws all free trade union activities, and penalizes workers for advocating free trade unionism—whether such country be Communist or Fascist or any other totalitarian hue. We oppose the Moscow-Peiping Axis maneuver to have free trade union delegations visit the Soviet slave orbit as a vital phase of the sinister Big Smile strategy calculated to confuse and divide the democratic camp. Moscow wants free trade union delegation visits to lend moral respectability and legitimacy to its regime which has robbed its people of every fundamental human right, keeps millions of its subjects in slave labor camps, and denies the workers the right of freedom of association and organization, the right of genuine collective bargaining, and the right to strike.

# EUROPEAN UNITY

21. In view of the intransigent Soviet opposition to German national reunification in freedom and the restoration of the national independence of the satellite countries, speedy action should be taken to make the West European union "a focus of European integration." We should seek to further European unity through economic aid and technical assistance to specific projects for free European integration, such as the establishment of a free Europe authority to construct and operate continental oil pipelines; unify rail, water, and air transport systems; coordinate atomic energy, electricity, and waterpower resources along the lines of the present iron and steel community. The free trade unions of the cooperating countries should be drawn into the policymaking bodies of such projects in order to assure the great mass of the people sharing equitably in the benefits thereof. This implementation of the London-Paris accords should be combined with a program to enable NATO to fulfill not only its primary purpose as a military defense body but in addition as an organ for greater economic and political cooperation in advancing peace, human rights, and improved living standards.

# STRENGTHENING THE ICFTU

22. United American labor—the AFL-CIO—realizes the urgency of strengthening the organization and enhancing the influence and prestige of the International Confederation of Free Trade Unions (ICFTU), and of ORIT, the regional organization to which we belong. We urge our affiliates to join and participate actively in the work of the various international trade secretariats—The ICFTU will (1) become increasingly effective in promoting the economic interests, as well as the larger aspirations of labor, regardless of race, nationality, color, or creed; (2) defeat the Communist attempts to subvert and destroy the free trade unions; (3) play an increasingly effective role in aiding the working people of the underdeveloped countries to establish strong free trade unions which shall play an ever more decisive role in improving the conditions of life and labor and in advancing the cause of national freedom and democratic rights of the people; (4) and in developing into a most powerful force for building a world free from the perils of poverty, the terror of all despotism and dictatorship, and the horrors of war. In this spirit, we shall encourage a greater knowledge of and a greater interest

In this spirit, we shall encourage a greater knowledge of and a greater interest in international affairs among our membership, toward the end that the wage

earners' great stake in our country's foreign policy will be more clearly recognized and reflected in its formulation and conduct.

Senator Sparkman. Mr. McLain, are you ready to proceed?

Let me say this. You heard the quorum call just now. It is preceding a rollcall. It may be a few minutes before that rollcall comes. but as soon as it comes, of course, I shall have to go.

I am going to make the suggestion that if there is a rollcall, as I anticipate, before we finish, we simply move the hearing over to our committee room, because we will probably be having rollcalls all afternoon. There is plenty of room there for everyone here, and we can post a notice on the door that we have adjourned to the committee room.

So if I have to leave before Mr. McLain finishes or before we complete the hearings, if all of you people will just come on to the com-

mittee room, I will vote and come right on down there.

All right, Mr. McLain.

# STATEMENT OF GEORGE McLAIN, PRESIDENT, NATIONAL INSTITUTE OF SOCIAL WELFARE

Mr. McLain. Senator, if I can stand up, I can pound this out quicker.

Senator Sparkman. All right, sir.

Mr. McLain. Mr. Chairman and members of the committee, my name is George McLain. I am appearing before you in the capacity of president of the National Institute of Social Welfare, with offices located at 300 New Jersey Avenue SE., Washington D. C., and with western headquarters located at 1031 South Grand Avenue, Los Angeles, Calif.

As a citizen of these United States and as the representative for a quarter of a million members of old-age pension and social welfare organizations in this country, I wish to raise my voice in protest against certain distinct inconsistencies in the attitude of our Govern-

ment.

# MISERY AND WANT EXISTING AMONG NEEDY AMERICANS

We, the inarticulate countrymen of yours, find it very difficult to understand your benevolent and extravagant concern for the peoples of the world while at the same time allowing misery and want to exist among some 16 million needy Americans comprising those on social security, public assistance, direct relief, unemployed, migratory workers, and low-salaried heads of large families.

President Eisenhower and his aides are asking that Congress appropriate \$4,300,000,000 for economic and military aid to foreign countries. This means a further tightening of the belts of the American

pople, with a resultant lower standard of living.

# NEGLECTING PLIGHT OF NEEDY AMERICANS ALLEGED

The sacrifices that we Americans have been called upon to make for other countries since World War I under the guise of national security is almost too fantastic to believe. Had our foreign giveaways been used, instead, for improvements in our own country such as modern highways, dams, sanitation, medical research, health institutions and hospitals, public housing, and schools, it would have assured the American people of a prosperous way of life that the people of all the world, instead of fighting each other, would have been too busy trying to copy.

We spend billions of dollars each year, directly and indirectly, trying to impress every other human being on earth with our superior form of government, our "universal" prosperity. Our international byword seems to have changed from "land of plenty for all" to "land of plenty for all and then some." These people in foreign nations are supposed to think that such is the result of our form of government.

But, I ask you, what is the good of spending all of these billions of dollars when the self-same foreign people can pick up their newspaper most any day and read where some poor soul in this country

has died of malnutrition or starvation?

There is a great nationwide resentment, gentlemen, over our Government being so lavish to foreign countries while neglecting the plight of our needy here at home.

## RECESS OF COMMITTEE

Senator Sparkman. Mr. McLain, supose you stop there, and we will adjourn to the Foreign Relations Committee room in the Capitol. I will join you there just as soon as I answer the rollcall.

(After a short recess, the committee reconvened in the Committee

Room, United States Capitol Building.)

Senator Sparkman. Will you take up where you left off, Mr. McLain?

# ADMINISTRATION'S FOREIGN AID REQUEST

Mr. McLain. President Eisenhower has asked Congress to increase

foreign aid and keep it flowing for years to come.

He proposes spending \$4,300,000,000 next year for foreign aid—of this huge amount, \$21/2 billion would be for direct military support, and \$1,800,000,000 in economic and technical aid for the nations lined up with the United States.

Senator Sparkman. Of course, in using that figure, you are including in your term "economic and technical aid", what we call "defense

support."

Mr. McLain. I see.

Senator Sparkman. Non-military assistance, outside of defense support, is about \$617 million. And I think that is one of the misunderstandings about this whole program that I wish we could correct in some way. So many people think of that big amount being for economic aid, when as a matter of fact over half of it is really for defense, because it is in support of the defense program.

Mr. McLain. Yes. That was taken from their own press release. Senator Sparkman. Yes, that is true.

# VISIT OF KHRUSHCHEV AND BULGANIN TO INDIA

Mr. McLain. Some time back, a couple of Russian leaders by the name of Khrushchev and Bulganin made a visit to India. They made a tour of the country and were well received. In their speeches they blasted the United States and made a lot of promises on what the Soviet Union could do for India.

According to our newspapers at that time, our State Department fell apart like a dollar watch. The very fact that Khrushchev and Bulganin were cheered and applauded along their way in India by crowds of people seemed to react on our State Department, headed

by Secretary of State John Foster Dulles, like a hot poker.

Now, it's not as if we have been neglecting India while helping all of the other nations friendly to us. Far to the contrary, we have during the past years appropriated and contributed more than \$324 million for economic aid to India, on top of which in 1951 we gave them a loan of \$190 million worth of wheat and approximately \$21.5 million worth of United States surplus food.

Therefore, it's hard to understand why our State Department will ask Congress for an additional \$60 million in United States aid to India and carry on as if the whole world would come to an end if India did not get this money, all because two Communist leaders

smiled at India.

After all, if the vocal promises of these two men can upset all of the aid to India that the American taxpayers have sweated and slaved to produce, then I say something is wrong with the way our State Department is spending our money abroad, and Congress should do something about it before they appropriate the billions now being asked for by President Eisenhower.

I am sure that President Eisenhower and his aides would not be so insistent that you gentlemen appropriate these billions of dollars for foreign aid if he didn't think that the Nation could well afford this

expenditure.

# GOVERNMENT'S PARADOXICAL ATTITUDES ON DOMESTIC AID AND FOREIGN AID

But, I ask you—is aid good or bad? Can we afford it, or can't we? I have heard all too many lawmakers declare, on one hand, that "aid to needy Americans costs too much money"; that "we don't have enough money to take care of needy Americans such as the old, blind, physically handicapped, and dependent children"; and that "economic aid to needy Americans is apt to destroy their self-reliance, and that if they are (grudgingly) given such aid they should first have to take the pauper's oath."

Later, from the same lawmakers, we hear of plans for giving vast sums of money to the governments of foreign countries with no strings attached—so they won't think we're giving it grudgingly—"After all, we must let them maintain their self-respect and realize that Uncle Sam is just a great, big, generous fellow who wants to see that none

of the peoples of the world suffer deprivation."

Here you have the paradoxical attitudes which seem to be the basis for the domestic-aid policy and the foreign-aid policy of our Government.

 $\mathbf{Why}$ ?

Is it because our lawmakers think a hungry child in the Far East or Furope is more worthy of care than a hungry child in the United States?

Is it because our lawmakers feel that their fellow Americans haven't the same pride, the same heart, the same soul as their foreign brothers that the "make 'em beg for what they get" policy is imposed on needy Americans, and the "don't be insulted, we just want to help" theory is applied to foreign recipients of our aid?

Why, then, the harsh "means test" for needy Americans, and exu-

berant generosity in the foreign-aid department?

# TESTIMONY OF SECRETARY FOLSOM BEFORE SENATE FINANCE COMMITTEE

To illustrate my point, I'd like to direct your attention briefly to testimony given by Marion B. Folsom, Secretary of the Department of Health, Education, and Welfare, who appeared before the Senate Finance Committee and opposed every single, solitary humane proposal which came before that committee to help liberalize the Federal Social Security Act and give additional help to the needy aged, the blind, physically handicapped, and dependent children of this country.

Folsom told the committee we couldn't afford to lower the age for

women beneficiaries to 62, as provided in H. R. 7225.

Folsom said we couldn't afford to make payments available to workers who become disabled at age 50 and over, also provided for in H. R. 7225.

Folsom said we couldn't afford to give \$10 a month surplus-food stamps to the millions of American needy on public assistance, an amendment authored by Senator Kerr and other members of the Senate.

Folsom said we couldn't afford a small increase for those on public assistance as offered in an amendment authored by Senator Russell Long, of Louisiana, and many other members of the Senate.

Secretary Folsom said that passage of Senator Paul Douglas'

amendment to allow the needy aged to earn \$50 a month would—

tend to give the old-age-assistance program some of the qualities of a pension.

He therefore opposed it.

For the Eisenhower administration to say we can afford such exorbitant sums for foreign economic aid, while vigorously opposing much-needed economic aid for needy Americans on the grounds that we can't afford it, is hypocrisy in its worst form.

#### CHARITY BEGINS AT HOME

It is not our policy to be against foreign aid. To the contrary, we feel that people of the United States should be proud and happy to share part of their wealth and abundance with needy people of the world—if and when the needs of their fellow Americans have been met fully.

It's a poor father indeed who buys steaks for his hungry neigh-

bors while throwing crumbs and scraps to his own children.

Such a father could expect contempt in the place of love and respect from his children, as well as from his neighbors. It's a universally accepted code that love, understanding, and charity begin at home.

Thank you.

Senator Sparkman. Thank you, Mr. McLain.

Mr. Andrew E. Rice? Come around, Mr. Rice.

Mr. RICE. Thank you, Senator.

Senator Sparkman. We are glad to have you with us. You may proceed.

# STATEMENT OF ANDREW E. RICE, LEGISLATIVE COUNSEL, AMERICAN VETERANS COMMITTEE

Mr. Rice. I certainly appreciate this opportunity to testify. I will submit my prepared statement for the record, and simply take a few minutes to comment on some of the main points.

# RECENT SPEECH OF EUGENE BLACK

I might begin my remarks today by calling to your attention the extremely interesting speech made several weeks ago at the United Nations, by Mr. Eugene Black, president of the International Bank.

Mr. Black gave a rather rosy picture of world economic conditions, and then he dared to make some prophecies, and he forecast that within the next 20 years the national income of the United States and of Western Europe would be doubled, and he pointed out that although the national income of all parts of the world would undoubtedly rise in those same 20 years, in Asia the rate of growth would be less than the rate in the United States.

When you think of that, I think that has two rather important im-

plications:

First, it shows how extremely wealthy we are, what abundance we do have, how extraordinarily productive our free-enterprise system makes us; and, secondly, it shows the gap between the richer countries and the poorer countries, instead of narrowing, very likely is going to get wider all the time unless we take vigorous steps to prime the pump, to give the push, the technical assistance and economic aid, which is necessary to get these countries really into a spiral of self-development.

What we are trying to do here is achieve a political goal. I think that is the important thing to remember. We are not trying to build up Ethiopia or Libya or any of these countries into great bastions of economic strength. They are trying to change their feelings of envy

and despair into hope and into a sense of progress.

That is a very important political goal, and that fact suggests to me two major considerations, among others, but I will mention these two:

# REASONS FOR CHANNELING MORE AID THROUGH THE U. N.

One, I think we would achieve more, more closely achieve this goal of winning political friendship with these countries, if we channeled more of our aid through the United Nations, and there are at least five reasons, and I think they are pretty cogent ones:

In the first place, the underdeveloped countries seem to prefer it that way. They have said that many times and, in fact, we have found that bilateral aid seems almost to increase rather than diminish

neutralism.

Secondly, it would give the United Nations new stature as a func-

tioning world organization.

Thirdly, and I think this has practical political considerations in our own country, it would provide a logical channel through which

the countries of Western Europe whom we have been helping and giving money to, can now share the cost of an aid program for the

underdeveloped countries.

Fourthly, as Mr. Reuther pointed out this morning, it would very effectively call the bluff of the Soviet Union. If they went along with this, then their political maneuvering would be vitiated. If they didn't go along with it, they would be shown up for what they are trying to do, the selfish motives of their own so-called aid program.

And fifth, as Senator Lodge said the other day, he thought channeling aid through the United Nations would prevent the so-called auction which some of the other nations are trying to promote between the

United States and U. S. S. R. as to who could give the most.

So, for these five reasons, I think the committee should give careful consideration to the possibility of channeling more of our aid through multilateral organizations like the United Nations.

Senator Sparkman. Can you throw some light on this for my bene-

fit? What is the administration's attitude toward this?

Mr. Rice. Well, this statement by Senator Lodge was the first administration position I have seen which suggested that some of our aid, more of our aid, should go through the United Nations.

As you know, the administration has consistently opposed the Special U. N. Fund for Economic Development, SUNFED, on the ground

Senator Sparkman. Did this come up in the last session of the Gen-

eral Assembly?

Mr. Rice. Yes, it did, and Brooks Hays, Congressman Hays, and Congressman Merrow, I think, were quite embarrassed. I certainly think Congressman Hays, who had to present that position in the second committee, was. And if you will read the report that Mr. Hays and Mr. Merrow made to the House Foreign Affairs Committee, you will see that they recommend that the United States reconsider its position on SUNFED.

Senator Sparkman. How do you explain the recommendation of our chief representative to the U. N., whereas the official stand of our delegation was against it? And then, I wonder if you remember that just 2 days after Ambassador Lodge made his statement, the newspapers carried rather glaring headlines to the effect that President Eisenhower had thrown cold water on it? That is the reason I ask

you. Frankly, I am confused.

Mr. Rice. I cannot give you the inside story.
Senator Sparkman. What is the administration's stand on it? Frankly, I think if the administration recommended it, and stood up behind it and tried to get it through, I think undoubtedly Congress would go along.

Mr. Rice. I am very glad to hear that, and I hope they will. Senator Sparkman. But it is a little difficult for Congress to move on its own on a program like this, when it does not know, and so far as I know has no way of ascertaining, just what the official position of the administration is.

Mr. Rice. I think it is changing, Mr. Chairman. I think that is

what has happened.

Senator Sparkman. Well, you see the difficulty we have with this matter, in considering it in connection with this legislation.

Mr. Rice. I see your difficulty. Senator Sparkman. All right.

# NATIONALISTIC FEELINGS OF NEWLY INDEPENDENT COUNTRIES

Mr. RICE. The second point I wanted to make, very briefly, is an obvious one, and that is that you cannot divorce our aid program from all the other aspects of our foreign policy, and this is where the Communists have beaten us.

They have not given any aid, but they have been more in tune, in many countries, with the political realities, with the nationalistic feel-

ings of these newly independent countries.

# PRESIDENT SUKARNO'S SPEECH BEFORE CONGRESS

Yesterday, President Sukarno spoke of nationalism, and it did not ring a very responsive note in Congress, but it is an important political fact of most of the countries of Asia, and it is one we have not been completely aware of, it seems to us.

Senator Sparkman. I am not so sure that I agree with you that his mention of nationalism did not strike a responsive note. My recollection is that the Members of Congress applauded him several times

in dealing with that.

Of course, we all have in mind the rather important part that the United States played in obtaining independence for Indonesia, and I rather feel that Congress was responsive. Certainly Congress was responsive to his whole speech. I have heard nothing but praise and admiration for him.

Mr. RICE. I think we have a very good record, and I think the Congress, as he pointed out, has gone on record unanimously against colonialism. And yet, the impression remains, and some of our positions in the United Nations would tend to support that position, that we are not completely anticolonial.

And you know all the examples of that that have come up in recent

months.

## FOREIGN POLICY

Senator Sparkman. Well, of course, I think one thing we have to remember is that there is always considerable difference in declaring a principle and then applying it to actual operations in the field. You always run into difficulties on almost anything in that regard.

There is a difference between the theoretical and the practical appli-

cation of a theory.

Mr. RICE. I couldn't agree with you more, Senator. I just think that sometimes we perhaps have been a little short-sighted—by "we" I mean the administration, the State Department—in taking a tem-

porary advantage and losing an ultimate goal, perhaps.

Senator Sparkman. Well, I certainly would not quarrel with you on that, and I believe that one of our great troubles today is that our whole program, our whole policy, tends to be short-range, and taking advantage of what may seem expedient from day to day, instead of being a definite, positive, long-range program. I think that is true not only in our foreign-aid program; I think it applies generally in

our foreign policy.

Mr. Rice. I agree with you, sir, and I think that we have to look at all the aspects of our foreign policy to make sure that one part isn't being vitiated by what we are doing in some other part.

That concludes my statement, and thank you very much, sir.

Senator Sparkman. Thank you.

(Mr. Rice's prepared statement is as follows:)

STATEMENT OF ANDREW E. RICE, LEGISLATIVE COUNCIL OF THE AMERICAN VETERANS COMMITTEE (AVC)

## SUPPORT FOR ADMINISTRATION'S FOREIGN AID REQUEST

Mr. Chairman and members of the committee, the American Veterans Committee supports the request of President Eisenhower for \$4.9 billion for foreign aid over the coming uscal year. It holds, with the President, that any cut in this request could gravely endanger the security of the United States

#### PURPOSE OF ECONOMIC AND TECHNICAL ASSISTANCE

I shall direct my brief remarks today to the authorization for economic development and technical assistance. Put as simply as possible, we believe that the purpose of these programs is to give the necessary impetus to internal and domestic programs of economic self-development. To move ahead economically is the intense desire of every underdeveloped country. But they lack the accumulated resources and skills to get going. These we can provide. As Dr. Henry Garland Bennett, the first United States point 4 administrator, said, the underdeveloped peoples have a window on the 20th century; what we are doing is to provide a door so they can move ahead—under their own steam—into the modern world.

From our own point of view, the goal we are seeking is not an economic one but a political one, to change despair and envy into a sense of progress and a feeling of common interest. From this fact flow two important considerations

# ADVANTAGES OF CHANNELING SUBSTANTIAL PART OF ECONOMIC AID MULTILATERALLY

First, to achieve maximum political effect, a substantial portion of our economic aid should be channeled through multinational agencies such as the United Nations. This is true, if only because the underdeveloped countries have clearly indicated that they prefer multilateral, rather than bilateral programs. Indeed neutralism, as a political force, actually seems to be strengthened by bilateral aid.

But support of a United Nations administered aid program would have other

important collateral advantages.

1. It would give new stature to the United Nations as a functioning institution.

2. It would offer a logical channel through which other nations—particularly those of Western Europe who benefited so heavily from United States aid in the postwar years—could share the cost of aid to underdeveloped countries.

3. It would call the Soviet Union's bluff, for if Russia failed to contribute to such a program itself, its own selfish motives would become evident.

4. In the words of Ambassador Henry Cabot Lodge, it would offer "a way to prevent the so-called auction which some are trying to promote between the United States and the U. S. S. R. as to which will spend the most in an underdeveloped country."

For all these reasons, we believe that the objectives of our economic aid program could best be served by channeling a considerable amount through the United

Nations.

# RELATIONSHIP OF ECONOMIC AID TO TOTAL POLICY TOWARD UNDERDEVELOPED COUNTRIES

The second consideration suggested by the political objectives of our aid program is that the question of foreign economic aid is tied up with the broader question of our total policy toward the underdeveloped countries.

In most underdeveloped countries just as important as the desire for economic advance has been the emergence of a revolutionary nationalism whose essence

is anti-imperialism, and sometimes antiwesternism.

The Communists have understood the nature of revolutionary nationalism, and learned how to exploit it; hence communism's alarming successes in Asia. The Communists have been willing to recognize the superiority of nationalism even over communism, in the underdeveloped countries, and instead of fighting it have tried to mold it to their purposes. In country after country, the Communists preach national liberation and peoples democracy—nationalist slogans—rather than Socialist revolution and proletarian dictatorship—Communist slogans. We, on the other hand, have permitted ourselves too often to be identified with the forces feared by the underdeveloped peoples and which they have been in the process of expelling from one country after another. This explains in good part why we are less than popular in much of Asia and Africa and why even when we appear "generous," and offer great amounts of economic aid, we are sometimes greeted with suspicion and hostility.

It is folly for us to expect to gain political objectives with an economic aid program, while we are undercutting ourselves in other spheres of foreign policy. What we say and do about colonialism: how honestly we operate our information and exchange-of-persons programs; how vigorously we espouse the rights of small nations to be heard and respected; even how well we practice our democratic principles here at home—all these are inseparable in terms of the total political impact of our foreign policy. We must not think of our economic aid

program in a vacuum.

Our investment in our economic and technical assistance program is enormous. Let us make sure that we use it intelligently, because only then can we reap its full dividends.

Senator Sparkman. Now, Mr. Rodes.

# STATEMENT OF ROBERT E. RODES, REPRESENTING THE MOROCCO POST OF THE AMERICAN LEGION, AND THE AMERICAN BUSINESS-MEN'S CLUB OF MOROCCO

Mr. Rodes. Mr. Chairman, I believe this is the second time I have talked on Morocco before you this week.

I have boiled my remarks down, and would appreciate it if certain supporting documents could be put into the record.

supporting documents could be put into the record.
Senator Sparkman. Fine. They will be put in the record.

Mr. Rodes. Splendid.

I represent the Morocco Post of the American Legion and the American Businessmen's Club of Morocco.

First of all, I would like to express our gratitude for the many attempts by this committee and its members to end French violations of United States treaties regarding Morocco.

Unfortunately, our Department of State is not heeding your mandates and admonitions. All the treaty violations which in 1954

prompted you to act still continue. Others have been added.

# STATEMENT OF MOROCCO POST OF AMERICAN LEGION

These violations are defined and their illegality explained in a statement by our Legion post dated February 10, 1954. I would appreciate it if you could include this in your record as appendix I, after my oral presentation.

Senator Sparkman. That will be done.

Mr. Rodes. The gist of this is that France declared free convertibility between her own and Morocco's currencies, although they are separate entities. This convertibility was then made the pretext for

restrictions of Morocco's exports to and imports and investments from all countries except France.

The United States told the International Court that France could not use this linkage of the two currencies, its own voluntary act, as a

means of voiding treaty obligations to the United States.

The Court in 1952 held that France could not have a preferential position in Morocco's economy; that the United States must be treated equally with France; that the Protectorate could not modify the treaty requirement of "economic liberty"—free competitive enterprise—in Morocco, and that French exchange controls "even if legal" could not justify discrimination.

## PREFERENTIAL POSITION OF FRENCH TRADE WITH MOROCCO

France, as our material shows, refuses to comply with this verdict or with the treaties it reaffirms.

Last year, Assistant Secretary Allen gave you a statement reading in part—

as a result of the combination of the new controls and the link between the two currencies, French trade with Morocco acquired, in practice, a preferential position.

That is on page 265 of last year's hearings. Everyone admits that this

preferential position violates treaties and the Court verdict.

Mr. Allen told you that quotas had been established on textiles and other products and that the Department had immediately protested this as a treaty violation. This protest, and many subsequent, like most previous, protests were brushed off by the French.

Still, since 1949, the Department's refrain has not changed. The end of its last year's statement to you—page 266 of your hearings—

reads:

The Department believes that the normal processes for the adjustment of international disputes are sufficient to deal with the Moroccan trade problem and that United States efforts have already met with reasonable success. There is every intention to continue those efforts and thus to protect our commerce with Morocco and to uphold the treaty rights of the United States.

It may be "success" by Department standards. Everyone else calls it dismal failure.

## STATE DEPARTMENT POLICY CRITICIZED

In 1954 you passed section 413 (b) (3) of this act, which requires the President to take all reasonable measures under this or any other act to enforce treaties for commerce and trade and taxes.

You also required that a progress report on this be submitted every 6 months. Department officials all admit that this is valid legislation.

As an example, the Department wrote a letter to Senator Humphrey dated December 21, 1954, which contains the following paragraph:

The Department reads in section 413 (b) (3) of the Mutual Security Act a clear objective: compliance with treaty rights of the United States. The Department fully agrees with the objective.

Conversations with Department officials and lawyers confirm this

interpretation.

Yet, when I returned to Casablanca, our Consul General, who has initial responsibility for treaty enforcement, told me he had no in-

structions to act against treaty violations, and that he was aware of

no change of policy as a result of your legislation.

He refused to act until receiving instructions from Washington when customs authorities held my merchandise illegally. Details of this are described in this letter, which I would appreciate your placing in your record as exhibit II.

Senator Sparkman. That will be done.

Mr. Rodes. The consul general also told me that it was Department policy not to challenge treaty violations which stem from exchange controls. This is a radical departure from what the Department claims, and violates several policy expressions by the Senate.

The statement to Senator Humphrey certainly does not indicate that the Department reserves the right to pick and choose between

treaty rights, protecting some, eliminating others.

This Consul General has always been reluctant to defend United States interests, claiming that France deserved a preferred position in Morocco, and that demanding enforcement of the International

Court verdict is "asking a pound of flesh."

His former assistant, now in charge of Moroccan affairs in the Department, went even further. He said that the United States should not try to make France do anything against her will, and that he could not believe the United States wished to enforce free competition in Morocco.

On another occasion he stated that free competition "breeds

monopolies."

A "reasonable measure" in enforcement of these treaties would be to place tough, aggressive, effective officers in these posts. Our Consul General's stock excuse now is, "What can I do? I haven't a battle-ship" or, alternately, "don't have any marines." I have seen officers of less rank handle tougher problems without anything but determination and the knowledge that they were right and that they had a great nation behind them.

Now that the French are jailing Americans, it seems particularly

important to have an aggressive chief of mission at Casablanca.

I won't take up time about details of jailings: I have already reported them to this committee. But I have received a very recent report, dated the 13th of this month, on one case, which I would appreciate going into your record. I think it is an outrageous thing.

Senator Sparkman. Is that included in the exhibits?

Mr. Rodes. Yes, sir; it is included. It shows that an American veteran was arrested and held in solitary confinement for 3 weeks, 4 days of it incommunicado.

Senator Sparkman. That will be done.

Mr. Rodes. Thank you.

At this point I would like to say that there is some corroboration for the Consul's claim that the State Department does not seek full treaty compliance. I have urged for years that we protest all legislation in Morocco which differentiates between French and American economic transactions.

The Department has not done this, although it is clear that the very existence of such legislation prevents United States and encourages French trade.

A French official told me that, while the United States had protested some French decisions and regulations, it has never asked for a clarifying ruling from the International Court.

Such a ruling could be had, he says, in 3 months. So long as the United States does not ask for it, French officials can be fairly sure

that the Department is not too dissatisfied with their actions.

An important phase of Morocco's economic domination is that it keeps products we need to sell away from a needy population who wants them, in order to make them buy overpriced products from which Frenchmen profit.

The Textile Workers Union, CIO, last year told the Finance Committee that French restrictions were depriving the world's textile producers of potential sales representing 13 million man-hours of work

and 100,000 bales of cotton.

Using United Nations figures, the union showed that Morocco has less than one-half of its prewar per capita consumption of cotton goods, while the rest of colonial Africa has 33 percent more than prewar.

I know this situation, and agree fully with the union.

## FRENCH CARTELS

Last December I found exports of olive oil from Morocco prohibited, ostensibly to assure the population's requirements; in reality to let

a powerful cartel profit outrageously.

I proposed to export 500 tons of olive oil, and with the proceeds to bring in 1,500 tons of United States refined soybean oil, which had approximately the same value. I pointed out that the Moroccan population could afford to cook with the soybean oil, but could not afford the olive oil, and that the transaction gave the poorer people 1,500 tons of fat.

This proposal was refused, but right after that the rules were changed. Olive oil could be exported provided the exporter sells the cartel specified quantities at one-third less than the current price. Soybean oil can be imported, but only in raw state, for sale to the cartel. Moroccans still can't buy our oil at reasonable prices.

The State Department seems uninterested in helping backward

people if it hurts our allies' cartels.

I certainly have no quarrel with doing anything for needy people, but I do think that while we are doing it at the Government level, we should not tolerate regulations and restrictions which prevent those same needy people from being helped by normal methods. That is exactly what we are doing.

France agreed to do away with those cartels when they got \$750 million from us in 1946 under the Byrnes-Blum agreement. They

have never done away with them.

I have seen Congress pass laws and adopt positions against cartels, but somehow, somewhere, somebody wants to protect them, and they stay right there. They are doing business at the old stand, often with a great deal stronger monopolistic position than they had before. I don't know why.

## FRANCO-MOROCCAN NEGOTIATIONS

France is now bargaining for a new relationship with Morocco. She has publicly announced she will seek financial, economic, and commercial privileges which patently would violate our treaties and the Hague Court verdict.

It is imperative that we publicly inform the negotiators that we will not permit any arrangement which would give French trade,

enterprise, or finance an advantage over ours in Morocco.

Furthermore, Moroccans who believe in free economy are fighting hard to escape the quagmire of French-regimented economy. We should publicly assert, without further delay, our insistence upon the free competition and equality which the Algerian Treaty requires.

So far the Department has failed to do this. It seems certain that some Department officers believe that if the negotiations as finalized give France concessions, the United States will have to accept them rather than be charged with upsetting the Franco-Moroccan peace. This constitutes an opportunity of ending our treaty position, which these officers have always wanted.

## ACTION REQUESTED BY MOROCCO POST OF AMERICAN LEGION

Our Legion post adopted a list of seven objectives which they asked me to present. I hope that you will see fit to consider them favorably and to influence the Department of State to take the action they recommend, and which the history of this case and your previous decisions would seem to amply justify.

Action requested: We believe this situation justifies certain action which, listed below in order of priority, is respectfully requested:

1. That the Department of State warn French negotiators that the United States insists that their agreement with Morocco be fully consistent with the terms of all treaties regarding Morocco to which the United States and France are parties and with the United States-Morocco treaty—which France has recognized.

2. That the move to relinquish "capitulatory rights" be limited to a statement by the Senate that it stands ready to approve a new treaty entirely consistent with Morocco's full sovereignty as soon as Morocco is free to negotiate one, but that it insists that United States equality with any European nation, and all economic requirements of treaties,

be maintained; or, alternatively:

- 3. That, in case the authorization cannot be avoided, it be restricted by asserting that no action will be taken on it until Morocco is completely independent; that the relinquishment will not prevent United States citizens from enjoying rights accorded to those of any European nations; that it will not give courts of any European nation jurisdiction over cases now tried in United States courts (jurisdiction could be transferred to Moroccan courts); that economic provisions of our treaties remain unchanged; (Objective No. 3 was adopted because consular authorities stated that the Department would not have made its announcement of intention to surrender these rights without a prior commitment from congressional leaders.)
- 4. That the Department of State (as a "reasonable measure" required by the Mutual Security Act) protest all French acts which give

France any economic advantage over the United States, restrict free competition, or otherwise violate our treaties and the International Court verdict:

5. That, in compliance with the 1955 Trade Agreements Extension Act, tariff concessions be withdrawn from France because of her dis-

crimination against United States commerce;

6. That the treaty compliance provision in the 1955 Mutual Security Act be repeated in the 1956 law, or strengthened if the Depart-

ment of State continues to ignore it;

7. That the 1957 Mutual Security Appropriation Act be amended to withhold all nonmilitary aid from any nation which fails to comply with any treaty commitment to the United States if the violated treaty has been declared valid by the International Court. (The provision passed by the Senate, but not by the House, last year.)

## INSERTIONS FOR THE RECORD

Here is a letter in which the American Businessmen's Club of Morocco urges the Secretary of State to insist that the Franco-Moroccan agreement respect United States treaties.

I think that anyone who reads this letter will agree that the action it requests is an urgent necessity. I would appreciate your putting

this, and the Department's reply, in your record as exhibit IV.

Senator Sparkman. The letter you refer to will likewise be printed. Mr. Rodes. Thank you. I have a copy of a letter herefrom a former vice consul, who wrote to Senator George on the 15th of May last year, and asked that it go into the record of the previous hearings. It got here after those hearings were closed out. It has to do with the sugar cartel, and he tells me that the situation is exactly the same. If you could print it in the record, I would appreciate it.

Senator Sparkman. Was that on another hearing that we had? Mr. Rodes. He sent it for last year's hearing, and it got here too late.

Senator Sparkman. All right, it will be included.

Mr. Rodes. Thank you.

Senator Sparkman. And all your exhibits which are attached will be included. I understand it is your wish that they be included.

Mr. Rodes. Yes, sir.

## UNITED STATES POLICY TOWARD NORTH AFRICA

Now, if you will permit, I would like to make a few remarks on

our North African policy, which I know concerns us all.

I would like to say, in this particular thing, I am speaking as an individual rather than as a representative of a group, because I have not cleared this with them. I believe it represents a general sentiment, but it is not in my instructions from either group.

As a people, and by official policy, we believe in freedom and self-

determination. Congress stated this policy last year.

Even many State Department officers recognize its importance. On page 191 of your last year's hearings, you find an Assistant Secretary of State telling Senator Smith:

I think true nationalism can defeat communism on its own terms \* \* \* if we assist that nationalism to maintain independence in the country concerned, I do not think that we have too much to fear that communism is going to win out.

The hearings record continues:

Senator Smith. And part of that nationalism is self-determination. Mr. Sebald. Exactly.

That seems axiomatic to me, living as I do on a major battlefield where colonialism and nationalism are in mortal combat.

Yet when Ambassador Dillon made a major policy speech on North Africa, he asserted we had always backed France there and would continue to do so.

Mr. Dillon says we back "interdependence," the word the French coined for the new program by which they wish to continue to exploit Morocco.

He also subscribes to the obviously specious claim that Algeria is an integral part of France, and pledges our support in helping her keep that territory. This project can succeed only by the most ruthless, most unequal, war known to modern times.

Our funds, equipment, and supplies should not be used for it. The Algerians we are helping kill are heroes to a large part of the world

even now. They will be heroes to everyone in 10 years.

The Moroccan's could not feel more strongly about this move than our Irish population would have if France had helped England retain Ireland.

It is significant that many Moroccans, including the present Minister of Foreign Affairs, kept away from receptions given for Mr. Dillon. Shortly after his speech, the Moroccan Labor Union called a general strike on our bases, and three labor leaders accepted an invitation to visit Red China.

Mr. Dillon's policy is one more of the series of steps which have cost us hundreds of millions of friends among the African and Asian people. I hope you will reverse it, or at least make sure that none of our aid is used in its support.

I also hope you will extend direct economic, technical, and financial aid to Morocco—because she deserves it and needs it acutely in this

transition period, and because we need Morocco.

Heretofore, our aid has passed through French hands and has helped Frenchmen profit from and strengthen their stake in Morocco. It certainly doesn't make sense for us to give vast sums to France, almost unconditionally, and to have her pass a small part of it along to Morocco and to cite this aid as proof that Morocco's financial existence depends on France and as a reason for France's continuing control of Moroccan economy.

Other United States gestures, less directly connected with this legislation, which Moroccans think they have the right to expect are:

1. An immediate exchange of ambassadors, despite French disapproval. The United States, in signing the Algeciras Treaty, recognized Morocco's sovereignty and independence, and has never altered this.

Now that other nations have recognized Morocco's independence and a foreign minister is appointed, further delay in exchanging ambassadors is an affront.

2. Negotiate for a new status for our Moroccan bases which are on

the soil of a sovereign state without its official consent.

3. Place employees of these bases under direct United States employment. At present they are employed by the French Quarter-master Corps and put at our disposal.

4. Take the lead in ending the arrangement which separates Tangier from the rest of Morocco.

However, the first step is to resume immediate diplomatic relations so that we can exchange views freely. The most important move would be to stop supporting French colonialism.

I appreciate very much this opportunity of being here again.

Senator Sparkman. Fine. Thank you, Mr. Rodes.

(The exhibits submitted by Mr. Rodes are as follows:)

#### EXHIBIT I

## FRENCH TREATY VIOLATIONS IN MOROCCO

A statement by Morocco Post No. 1, American Legion, Casablanca, February 10, 1956

#### RACKGROUND

Treaties between the United States, Morocco, and France require free competitive economy in Morocco, with complete economic equality between the United States and France. France persistently refuses either to comply or let Morocco comply with these treaties. Since 1949 our post has protested this to our Government, our Congress, and national headquarters. Both Congress and our national organization have, after investigations, agreed with us.

Congress has passed several laws intended to require enforcement of these treaties and has approved many reports urging the Department to end the violations or censuring its failure to do so. One of those laws was "intended to give France her option of complying with these treaties or giving up United The Department of State evaded this by accepting to have the International Court pass on the treaties and continuing aid as if no law had been passed, during the 2 years' litigation.

In 1952 the Court held that Morocco's economy must be freely competitive; that France has no economic privilege in Morocco; that the United States must be treated equally with France in all economic matters here and that the estab-

lishment of France's protectorate could not alter these requirements.

France still refuses to comply. The Department of State claims to be trying to obtain compliance but without success. It has made similar claims for 7 years. The Mutual Security Acts of 1954 and 1955 require all reasonable measures to be taken to enforce commercial treaties. Progress must be reported every 6 months. The Senate Foreign Relations Committee stated that this was to end French violations of United States Morocco treaties. The Senate and House committees considering the 1955 Trade Agreements Extension Act were informed of the French treaty violations and asked to act to end them. was amended to require withdrawal of concessions from any Nation which discriminates against American commerce. If action has been taken by the Department of State under any of these measures it has been without results.

Six months after the effective date of the 1954 act the State Department had not acted upon it. This encouraged France to institute new treaty violations. The Department of State has protested these, with its usual negative results. Still no attempt to take the positive action required by the above-mentioned laws

The net result is that the situation is worse than ever. has been made.

The Senate again, in July 1955, voted to suppress all nonmilitary aid to France in reprisal for the violations. This did not pass the House but that body did state that the Department of State had a duty to enforce these treaties. This, too, has had no effect.

#### PENDING TREATY CHANGES

On February 15 Moroccan and French representatives will begin conversations intended to define France's future position in Morocco. French officials have stated that they expect to retain some of their privileges. A prompt warning to the conferees (which the Moroccans would welcome) would prevent the necessity of challenging the agreement after it has been made. Far from it the State Department has just announced its intention to ask Congress to abandon "capitulatory rights," including our right to trial, under certain circumstances, in United States consular courts. Many of these rights stem from a treaty of 1836.

which the International Court held valid. Its most important requirement is "whatever indulgence \* \* \* shall be granted to any of the Christian nations, the citizens of the United States shall be equally entitled to them." Most privileges we enjoy, such as the rights to travel, reside, and work in Morocco (e. g. the American physicians who serve our colony), are due solely to that provision. Our equality with Frenchmen makes us immune to restrictions which curb all other foreigners except them and ourselves. French administrations, who resent this equality, erroneously term it "capitulatory," in an effort to discredit it.

While the present negotiations involve only that part of Morocco under French administration, 8 other nations, including Russia, retain even far more extensive privileges in 1 or both of the other areas. (Britain, for instance, emphasizes its equality in Tangier by operating a British post office in competition with France.) If our capitulatory rights are abandoned, Americans will be inferior to citizens of all these nations in Tangier and to some in Spanish Morocco.

We regret the proposal to have Congress delegate the relinquishment of these rights to the Executive. Secretaries of State, including and prior to Cordell Hull, have warned France that only our treatymaking authority could relinquish them. Furthermore the authorization, although intended to affect only capitulatory rights, might be stretched by the Department to abandon our entire treaty situation.

In addition to all questions of justice, equity, and economic interests we believe that Morocco's location and our strategic interest should make the United States insist on complete equality there. As simple example: Arrangements permitting Frenchmen to enter Morocco without visas but requiring visas for Americans or restricting Moroccans' travel to United States but not to France would make it infinitely harder for our labor unions to combat the French Communist unions who are trying to capture Moroccan labor. Many similar discriminations would be possible, especially if French communism grows. In fact, all economic contacts between the United States and Morocco strengthen the ties between the two countries and so better our strategic position.

#### PRESENT SITUATION

Present regulations, restricting United States imports, exports, and investments, do not restrict those of France. After French textile sales dropped 50 percent in 1954, quotas were imposed to restore France's previous share. These measures all violate treaty requirements both of equality and free economy. In fact, free economy has almost disappeared—replaced by French-type regimentation.

Customs valuations are discriminatory and arbitrary, the authorities refusing to adopt the valuation formula directed by the International Court.

By these methods France has acquired more than half of Morocco's trade in both directions and controls most enterprises. In Tangier, an integral part of Morocco, the same treaties apply, but are respected by Tangier's international administration. The United States leads in both export and import trade in Tangier, and Americans have important enterprises, representing heavy investments there. France plays only a minor role in Tangier economy.

To prevent Tangier's free economy from competing with her interests, France has imposed customs and currency barriers between the administrative zones of Morocco, which are similar to (and just as illegal as) those which divide Germany.

In addition to our interests, in signing the treaties in question the United States in effect guaranteed Morocco's own right to buy, sell, and obtain capital in world competition. We have made no move to make good on this pledge, much to the disappointment of the Moroccans who estimate that French controls raise their living costs at least 33 percent.

#### ACTION REQUESTED

We believe this situation justifies certain action which, listed below in order

of priority, is respectfully requested:

1. That the Department of State warn French negotiators that the United States insists that their agreement with Morocco be fully consistent with the terms of all treaties regarding Morocco to which the United States and France are parties and with the United States Morocco treaty (which France has recognized).

2. That the move to relinquish "capitulatory rights" be limited to a statement by the Senate that it stands ready to approve a new treaty entirely consistent with Morocco's full sovereignty as soon as Morocco is free to negotiate one but that it insists that United States equality with any European nation, and all economic requirements of treaties be maintained, or, alternatively.

3. That, in case the authorization cannot be avoided, it be restricted by asserting that no action will be taken on it until Morocco is completely independent; that the reliquishment will not prevent United States citizens from enjoying rights accorded to those of any European nations; that it will not give courts of any European nation jurisdiction over cases now tried in United States courts (jurisdiction could be transferred to Moroccan courts; that economic provisions of our treaties remain unchanged;

4. That the Department of State (as a "reasonable measure" required by the Mutual Security Act) protest all French acts which give France any economic advantage over the United States, restrict free competition or otherwise vio-

late our treaties and the International Court verdict;

5. That, in compliance with the 1955 Trade Agreements Extension Act, tariff concessions be withdrawn from France because of her discrimination against United States commerce;

6. That the treaty-compliance provision in the 1955 Mutual Security Act be repeated in the 1956 law, or strengthened if the Department of State continues

to ignore it:

7. That the 1957 Mutual Security Appropriation Act be amended to withhold all nonmilitary aid from any nation which fails to comply with any treaty commitment to the United States if the violated treaty has been declared valid by the International Court. (The provision passed by the Senate, but not by the House, last year.)

#### EXHIBIT II

ILLEGAL RETENTION OF UNITED STATES MERCHANDISE BY FRENCHMEN ADMINISTERING MOROCCO'S CUSTOMS

CASABLANCA, MOROCCO, January 27, 1956.

The United States Consul General, Casablanca, Morocco.

DEAR SIE: Attached is a Customs declaration to the Moroccan Customs Receiver at the Port of Casablanca for 43 bales of clothing weighing 4,809 kilos net and valued at 970,400 francs and a similar declaration for 106 bales weighing 7,308 kilos and valued at 1,482,800 francs—total value 2,453,200 francs.

The Customs have refused to accept these declarations on the grounds that no quota has been allotted me for their importation. As you know the United States has taken the position that these quotas are illegal and that an open door

must be provided for United States products in Morocco.

There will undoubtedly be a further objection by the Customs authorities when I refuse, as I shall do, to sign an engagement to invest the proceeds of the sale of these goods in Morocco, or otherwise to dispose of them in accordance with the desires of the Moroccan exchange office. This refusal is based on the fact that goods obtained in France are not subject to the same requirement and that therefore the requirement violates the rule of complete equality for the United States in all economic matters. It also violates the principle of free economy to which the International Court found Morocco committed and the Court's finding that the protectorate's establishment could not alter Morocco's basic economic status. This requirement is such an alteration by the protectorate.

In view of this I would appreciate your doing the necessary to require the Customs authorities to release this merchandise and to reimburse me for any storage or other expense, including interest computed from this date, which this delay may incur. Failing in this I should appreciate the Department's taking all necessary action to collect the value of this shipment, together with interest, in keeping with paragraph 113-b-3 of the current Mutual Security Act. This would also seem to necessitate withdrawal to France of tariff concessions, in keeping with provisions of the 1955 Trade Agreements Extension Act.

This is submitted in compliance with your request made this morning. Your cooperation is appreciated very much.

Yours sincerely,

ROBERT EMMET RODES.

Note (May 15, 1956).—These goods are still held. The letter has not been answered. The consul general has stated orally, however, that he is waiting for an answer to a note before recommending reprisal action he admits to be required by law. Customs authorities threatened to confiscate and sell these goods but stopped when reminded that, under the Treaty of Algeciras, reaffirmed by the International Court of Justice, such confiscation could only be by order of the United States consular court. The State Department now proposes to give up this court, which would permit confiscation in future cases.

## EXHIBIT III

## MEMORANDUM RE ARRESTS OF AMERICANS IN CASABLANCA

CASABLANCA, MOROCCO, May 13, 1956.

The following is a summary of a statement made this morning by an American citizen and World War II veteran who was released on bail day before yesterday from a French prison here. He requests that his name be given no publicity in this connection which might reach his family in America, who are not aware of his situation. He will be called "X" in the following report.

On Saturday, April 21, 1956, X received a call from two French police inspec-

On Saturday, April 21, 1956, X received a call from two French police inspectors, who asked him to accompany them to the courthouse where "a few questions would be asked him." At the courthouse he was asked and answered as follows:

Judge Figac (juge d'instruction). "Do you wish to be questioned now, or later in the presence of your lawyer?"

Answer. "In the presence of my lawyer."

Judge Figac. "I place you under arrest for hearing at a later date."

(Note.—The arrest on Saturday is a tactic which is intended to assure remaining in jail over the weekend as neither lawyers nor authorities are available. A juge d'instruction is an examining and committing magistrate who, roughly, replaces our grand jury.)

The two police inspectors escorted X to prison where he was placed in solitary confinement in a cell marked "Secret." The cell was filthy and was unfurnished except for a water tap and a toilet of sorts. A dirty cornhusk mattress was brought in and put on the floor covered with two dirty blankets. The place was infested with rats and bedbugs. Mr. X asked for DDT, which was supplied the following Tuesday. The only food provided regularly by the prison was soup served at noon and in the evening in a dirty quart-size tin cup and a loaf of bread each day—nothing in the morning and no coffee or other beverage at any time. About twice a week there were bits of unpalatable meat or fish.

Conditions in the prison became worse on Saturday, May 5, when Moroccan prisoners went on hunger strike in protest against the food given them. Guards were unarmed and a number of prisoners broke out. Some of them asked X if he would like them to break his lock but he persuaded them to leave him alone. Serious riots were threatened but the director-in-chief of Moroccan prisons came from Port Lyautey and was able to restore order. A guard told Mr. X afterward that he was "lucky not to have had his throat cut" but the rioters actually showed no animosity toward him, and the only way the trouble affected him was that he got no soup and only half a loaf of bread.

A hearing was arranged for Friday, April 27, 6 days after X's arrest, and he was taken to the courthouse. As he could not follow all the legalistic exchanges between counsel and judge he requested an interpreter. The judge replied with considerable temper that X "understood enough French to do business here and could get along," finally postponed the hearings a week "in order to have an interpreter." Hearings were eventually held on Friday, May 4, and Monday, May 7.

 $\ddot{\mathbf{X}}$  received one visit from United States consular officials during his 3 weeks in prison. The consulate's legal officer and liaison officer were permitted to see him 4 days after his arrest, and talked with him through two sets of bars spaced about a meter apart. The liaison officer made some suggestions to  $\mathbf{X}$  about

preparing his case. The consulate's legal adviser, on the other hand, said he was "not in a position to do much for citizens who get in trouble with French law."

After some difficulty, X's wife was permitted to talk with him twice a week through the bars and after the first week to send occasional food packages.

The following additional facts were supplied by an American who accompanied X this morning and who has been most active among the group of American

veterans who have tried to obtain decent treatment and a fair hearing for X. The American group reported the arrest to the consul general and he, on the following Monday, tried to get an appointment with the French juge d'instruction. The judge refused to see him. This was brought to the attention of the French district attorney, who informed the judge that he was obliged by law to receive the United States consul general under the circumstances, and an appointment was arranged a day or two later.

The meeting was not very productive. The United States officer was merely shown a list of charges against X and was promised a copy, which up to date of present writing he has never received. He was also shown a list of five Americans slated for probable jail sentences. X was one. A second is already under arrest and has reported that he is very ill and denied competent medical

care. A third has been ordered not to leave the country.

After nearly 3 weeks, however, the consulate was informed that X would be released on 1 million francs bail. The same afternoon, the amount was raised to 2 million. The consulate legal adviser explained to the American group that this represented "1 million bail" and "1 million guaranty not to leave the country." X's lawyer arranged that a letter of guaranty secured by land hold-

ings should be put up instead of cash.

Note.—The charges against X, as reported by the consul general, are: "exporting of capital, importing prohibited merchandise, and fraudulent declarations." He was not questioned this morning on details of the transactions involved nor on the basis or validity of the charges, which are matters for competent legal opinion to decide. Mr. X claims, however, that he has documentary proof that certain charges against him have no basis in fact or in law. He notes, moreover, that some of the laws and regulations on which they rest were declared illegal by the International Court of Justice in 1952, and that the operations concerned were all subsequent to that date. Finally, he says that the transactions cited have been known in detail to the authorities for a long time, some of them dating back several years, and that no question has been raised until now.

There may be, also, the very valid defense that these transactions would have been legal between Morocco and France, therefore are legal with the United States. This certainly would apply to "importing prohibited merchandise" from

the United States.

All of this indicates that there is some question, at least, of Mr. X's guilt, and probably some extenuating circumstances in his case. Those are matters to be settled. An equally important matter to be settled is why an American citizen in a friendly foreign country, should be arrested by subterfuge and without warrant, held 3 weeks in solitary confinement under filthy conditions without trial, before his release under bail can be arranged.

The American legionnaire who was most active in organizing the defense of this man and insisting that his wife be allowed to visit him had first his home and later his office subjected to meticulous searches by the police. There was no business connection between him and his friend who was under arrest and this

obviously was in reprisal for his intervention in his comrade's behalf.

## EXHIBIT IV

AMERICAN BUSINESSMEN'S CLUB OF MOROCCO, Casablanca, January 29, 1956.

Hon. John Foster Dulles, Secretary of State, Washington, D. C.

DEAR SECRETARY DULLES: Negotiations between the French and Moroccan Governments to determine the permanent relationship between them will begin about February 15, 1956.

We consider it imperative that the United States assert its own treaty rights

in Morocco for the guidance of the negotiators.

Certain French officials have made it clear that they expect the negotiations to legitimize and continue at least some of the special privileges which French

These citizens and their interests and their trade have acquired in Morocco. privileges violate treaty guaranties made to the United States by both France

and Morocco.

We wish to remind you that the International Court of Justice in 1952 ruled that France is entitled to no economic privileges in Morocco; that the United States must be treated equally with France insofar as economic matters in Morocco are concerned and that the establishment of the French protectorate did not change the treaty requirements for free competitive economy in Morocco. These pronouncements were based upon the Court's clean-cut determination that the Treaty of Algeciras is still in full effect. The Court also upheld article 24 of the United States and Morocco Treaty of 1836. This requires that any advantage, either in trade or otherwise, which is accorded to France also must be accorded to citizens of the United States. These findings by the International Court were made after it had considered a French request to validate exchange controls as they now exist in Morocco. The Court refused to comply with this request stating that the controls, even if legitimate, could not justify discrimination.

In so ruling the Court obviously accepted the United States pleadings to the effect that the linkage of French and Moroccan currencies which underlies the control system was a voluntary act of the French Government, and, as such, could not excuse its violations of prior treaty commitments. This decision might permit Moroccan exchange controls if they were applied identically to French and United States currencies. However, they prohibit transactions with the United States which are permitted with France, which obviously violates the Court's decision.

The 8 years' history of this controversy has been characterized by extreme reluctance on the part of the Department of State to act with sufficient force to obtain the results to which we are entitled. In several cases this reluctance has permitted France to confront the United States with accomplished facts which greatly strengthened the French position. In other words, this dispute has been characterized by vigorous aggressive action on the part of the French Government and with inaction by the State Department (or action so mild and reluctant as to be ineffective).

We particularly have in mind the period immediately following the 1952 United States victory in the International Court of Justice. Responsible Americans then urged the Department's representatives in Morocco to immediately inform the French Government what action the United States demanded in compliance with the verdict. Those representatives preferred to "wait and see," with the result that legislation nullifying the verdict was promulgated long before the position

of the United States had been announced.

This legislation was unsuccessfully protested by the Department of State. It obviously violates both the Court's verdict and the treaties. It is still in force. The prompt action which had been urged would have prevented this. The same policy carried out by some of the same State Department personnel had similar results in 1955.

Congress in 1954 had passed a law requiring that all reasonable measures be taken to enforce commercial treaties. This legislation was intended to require enforcement of the Morocco treaties. The Department failed to take any action whatsoever in compliance with this law. As a result, France was encouraged to additional treaty violations, with which you are familiar. The Department has protested these with the usual negative results.

We call this record to your personal attention and we are convinced that, unless such tactics are replaced by a positive aggressive policy, the United States treaty

position in Morocco will be lost.

We therefore request that you inform the French Government that the United States will not accept any arrangement which would detract from the equality to which it is entitled or which would establish a preferred status for French nationals finance, trade, or enterprises in Morocco, or which would alter the requirements for free competitive economy. We also suggest that you remind the French Government, as it has been repeatedly advised, that any arrangements which would alter the United States treaty position could only become valid after renegotiations between United States and Morocco, followed by ratification by the United States Senate.

It seems obvious that any renegotiations should be deferred until an agreement can be concluded with Morocco acting as our sovereign equal and without French or other foreign influence.

We sincerely hope that after personal review of this matter you will agree with us that prompt and vigorous action which we request is entirely justified, and will direct that it be taken before the negotiators meet.

Respectfully,

MAX P. VARNER, President.

Note.—We believe the above letter deserved thought and objective comment. An officer of the Department's fourth echelon answered it after a month's delay in a totally meaningless letter, which follows:

> DEPARTMENT OF STATE. Washington, February 27, 1956.

Mr. Max P. VARNER.

President, American Businessmen's Club of Morocco, Hotel El Mansour, Casablanca, Morocco.

DEAR Mr. VARNER: On January 29, 1956, you wrote to the Secretary of State, setting forth the views of the American Businessmen's Club of Morocco on the commercial rights of the United States in Morocco and suggesting certain procedures with regard to the Franco-Moroccan negotiations now in progress.

The Department wishes to assure you that due consideration will be given to your views, and that, in working out its future courses, it will continue to defend United States treaty rights in Morocco. In doing so, the Department will of course have in mind the rights and interests of your organization as well as those of other Americans in Morocco

Sincerely yours,

LEO G. CYR, Director, Office of African Affairs.

May 15, 1955.

Hon. WALTER F. GEORGE,

Chairman of the Senate Foreign Relations Committee, Capitol Building, Washington, D. C.

DEAR MR. CHAIRMAN: It is as an American citizen born in Sioux Falls, S. Dak., that I am writing you. I was a United States vice consul at Casablanca, Morocco, during the last war, including a year and a half preceding our landings in north Africa. This experience is related in a book "Adventure in Diplomacy" published by Dodd, Mead & Co. in 1945 (written by me).

After the war I entered in business in French Morocco. My interests in cluded the founding of a bottling company to bottle Coca-Cola for Casablanca and the Rabat area. For 7 years I was managing director of this company. I

also have minor mining and manufacturing interests in Morocco.

The appeal of Morocco to my type of American is that it is required by international law to maintain a system of free competitive enterprise. The French have not respected these laws and moreover, because of laxity by our State Department, Morocco's economy has been systematically turned into one even more regimented than the hodgepodge of licenses, controls, quotas, and cartels which prevail in France itself.

A system contrived to give exorbitant profits to the French sugar cartel has raised the price of sugar so much that it is impossible to produce Coca-Cola for prices in keeping with French-Moroccan incomes. Similar arrangements affect every phase of Moroccan economy under French rule. I have transferred my activities to Tangier where an international body, operating under the same treaties, respects these treaties and maintains free competitive enter-

prises.

I have followed and been very gratified by your committee's efforts to enforce our Moroccan treaties, especially the treaty compliance requirement contained in section 413 (b) (3) of the present Mutual Security Act. From my own diplomatic experience I know that, if the State Department wants to enforce these treaties, this congressional mandate would make such enforcement far easier.

At any rate we are making great sacrifices to eliminate trade barriers and raise standards of living. It is preposterous for us to condone totally illegal barriers which raise living costs in a "backward area"—especially when such barriers flagrantly violate treaties ratified by the United States and reaffirmed by the International Court of Justice at the Hague in 1952. I respectfully request that your new Mutual Security Act reaffirm and

strengthen the position taken by Congress in the 1954 act.

I also request that you bring this letter to the attention of your committee and include it in your hearings record.

Yours sincerely,

KENNETH PENDAR.

P. S.—The enclosed is a note on the case brought against the United States by France before the court of justice of The Hague.

JANUARY 10, 1955.

STATE DEPARTMENT STILL PROTECTS FRENCH SUGAR CARTEL IN MOROCCO

In the International Court of Justice the United States argued that free competitive economy is required by treaties between the United States, France and Morocco; that the right to enjoy free economy is guaranteed to Morocco by France and the United States and that enforcement of this guaranty is in Morocco's best interest. In court the United States gave the example of sugar price structure in Morocco as an outstanding violation of the free economy requirement which damages the Moroccan economy by making French Zone Moroccans pay exorbitant prices for their sugar (p. 30 United States oral arguments before International Court of Justice in case France v. U. S.). In answering a complaint about illegal sugar restrictions made by Mr. Kenneth Pendar of Casablanca and forwarded by Senator William Benton, the Department of State condemned the system complained of. The Department explained that the system in effect taxes refined sugar from non-French sources and even from local Moroccan refineries and that funds provided by these taxes were used to pay bonuses to French sugar refineries whose prices are too high to permit them otherwise to compete. The Department admitted Mr. Pendar's charge that the described system prevented French Zone Moroccans from enjoying the competitive prices prevalent at Tangier where the International Government respected the treaties which, legally, are identically binding on French Zone officials. The Department wrote Senator Benton:

"\* \* \* The price controls previously mentioned are largely responsible for the

higher price of sugar in the French Zone.

"While the Department has consistently urged the French Protectorate Government to restore complete freedom to the sugar business in Morocco \* \* \*, the Department does not consider it advisable to press this point further until the International Court of Justice has rendered its decision in the case now before that body between the United States and France regarding the nature and extent of United States treaty rights in Morocco. At the time France instituted the suit, the two governments agreed that the status quo would be maintained pending the decision. The present situation regarding sugar is part of this status quo" (Department of State letter to Senator Benton, June 9, 1952). [Italics added.]

In August 1952 the Court held that in Morocco French officials must maintain the principle of "economic liberty"-free competition. This removed the Department's excuse for delaying the restoration of "complete freedom to the sugar business in Morocco." The price controls which the Department claimed to oppose still remain essentially unchanged. The Department has not acted to end them. An Assistant Secretary of State and a Director for Africa who had jurisdiction in 1952 still have jurisdiction. Their policy has always been to oppose free economy in Morocco. The elimination of their 1952 excuse has not altered the policy.

Senator Sparkman. That concludes the hearing. The committeewill stand in recess until 10:30 Monday morning, at which time we will meet in the caucus room of the Senate Office Building.

(Whereupon, at 3:40 p. m., the committee recessed, to reconvene at 10:30 a.m., Monday, May 21, 1956.)

# **MUTUAL SECURITY ACT OF 1956**

## MONDAY, MAY 21, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to recess, at 10:35 a.m., in the caucus room, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Mansfield, Smith of New Jersey,

Knowland, and Aiken.

Also present: W. J. McNeil, Assistant Secretary of Defense; Ralph W. E. Reid, Assistant Director, Bureau of the Budget.

The CHAIRMAN. The committee will come to order.

The Committee on Foreign Relations is meeting this morning to hear Mr. Joseph Campbell, the Comptroller General of the United States, discuss the fiscal practices of the executive departments remarking for administration provided consists funds.

sponsible for administering mutual security funds.

The question of obligations, reservations, and unobligated balances has probably been the source of as much concern as any other single problem during the annual congressional consideration of the mutual security program. It becomes especially pertinent this year in view of the administration request for an authorization of \$2 billion more than was appropriated last year.

The hearing this morning stems from a letter which I wrote to Mr.

Campbell on May 4 in which I said, among other things, that—

it would be most helpful if you could arrange to meet with the committee in public session to present an independent description of present fiscal practices in connection with the mutual security program, an evaluation of those practices, and any recommendations you would feel appropriate for consideration by the committee.

We also have present this morning Dr. Ralph W. E. Reid, Assistant Director of the Bureau of the Budget, and I have likewise asked Mr. W. J. McNeil, Assistant Secretary of Defense (Comptroller), to be here to answer questions which may occur to the committee as a result of Mr. Campbell's testimony.

We are very glad to have each of you gentlemen with us. Mr. Campbell, you may proceed in your own way in a discussion of this

very important matter.

If you prefer not to be interrupted until you finish your main statement, the committee will respect your wishes and we will withhold questions until after you have made your statement.

Mr. CAMPBELL. Mr. Chairman, I have a rather extensive statement

and I would prefer to read it through and have questions later.

The CHAIRMAN. The committee will respect your wishes and you

may proceed.

Would you permit the chairman to make one statement in addition? A meeting has been scheduled for Tuesday morning, which is the regular meeting day of this committee at 10:30 in executive session to hear Assistant Secretary of State Walter Robertson, and a meeting has been scheduled for tomorrow afternoon at 2:30 in executive session to hear Secretary of Defense Wilson. Secretary Wilson was requested to return for some questioning, and he will be able to be on hand tomorrow afternoon at 2:30 in executive session.

Now you may proceed, Mr. Campbell.

STATEMENT OF JOSEPH CAMPBELL, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY ROBERT F. KELLER, ASSISTANT TO THE COMPTROLLER GENERAL; LAWRENCE J. POWERS, DIRECTOR, DEFENSE ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE; AND GEORGE H. STAPLES, ASSISTANT DIRECTOR, CIVIL ACCOUNTING AND AUDITING DIVISION, GENERAL ACCOUNTING OFFICE

Mr. CAMPBELL. Mr. Chairman and members of the committee, we are glad to appear before you to discuss the fiscal practices of the executive agencies engaged in the administration of the mutual security

program.

I have with me today Mr. Robert F. Keller, Assistant to the Comptroller General; Mr. Lawrence J. Powers, Director, Defense Accounting and Auditing Division, General Accounting Office; and Mr. George H. Staples, Assistant Director, Civil Accounting and Auditing Division, General Accounting Office, in general charge of our activities in connection with the ICA.

At the outset, we wish to make it clear that our statements are in no way intended as views on basic foreign-aid policy questions. Our

comments cover the fiscal practices only.

For purposes of discussion it is necessary to consider the mutual security program in two parts—first, nonmilitary foreign aid, most of which is administered by the International Cooperation Administration; and, second, the military assistance program administered by the Department of Defense. Also, in order to bring these matters into proper perspective, it is necessary to go into conditions and occurrences relating to prior years.

# NONMILITARY FOREIGN AID ADMINISTERED BY INTERNATIONAL COOPERATION ADMINISTRATION

Background of present fiscal system

Prior to the creation of the Foreign Operations Administration—predecessor of ICA—in August 1953, each of the agencies then responsible for the administration of foreign assistance had its own accounting system and fiscal policies and procedures.

The consolidation of these agencies into FOA permitted the integration of many functions under a single set of rules for activities of the

same general character.

In addition to a need for integration, FOA faced the task of eliminating unsatisfactory obligating and other fiscal practices in the administration of certain activities.

In reorganizing its fiscal structure for administration of the consolidated activities, FOA adapted its fiscal system to the operational

and procedural character of its activities.

As a result the 3 types of major activities for nonmilitary assistance—designated in legislation as defense support, development assistance, and technical assistance—were realined for fiscal purposes into 2 types of aid, project and nonproject, and separate financial accounts and procedures were devised for each.

## Project-type aid

Project-type aid was considered to embrace those undertakings of a specific nature jointly sponsored, financed, and carried out by the two countries. It consists of:

1. Advice by technical experts, demonstration, and training of foreign nationals in practically all fields of activity, popularly known

as point 4, and

2. Assistance in financing projects for the construction or acquisition of capital investment facilities such as dams, industrial plants, and farm equipment.

## Nonproject-type aid

Nonproject-type aid was designated as that directed at the economy of a country as a whole, such as assistance to bridge a deficit in its balance of payments, or to support its budget, or to satisfy needs for internal consumption. This type of aid has been principally in the form of financing the import of commodities, but has also consisted, in special cases, of cash grants and special defense financing and the logistic support of armed forces.

FOA, in close cooperation with the General Accounting Office, developed a revised accounting plan effective in fiscal year 1955 for project-type aid. This plan, among other things, established a uniform basis for obligating funds. It also helped to clarify existing criteria for obligating funds and to strengthen accounting and re-

porting for other activities.

The fiscal system used by the predecessors of ICA for financing the import of commodities under the Marshall plan was substantially continued in the ICA system, for what was designated as nonproject-type aid.

General basis for obligating funds

Most assistance is implemented through bilateral agreements in various forms between the United States and individual foreign countries. These agreements commit the United States in stated amounts for the financing of projects, the procurement of commodities or services, or similar assistance activities. These agreements also call for financial or other undertakings by the foreign countries.

# Fiscal procedures for project type aid

Because of the need for close working relationship between the ICA mission and the foreign government, as well as for latitude and flexibility in program decisions in the field, the administration of project-type aid is decentralized. Financial and operating responsibility is vested in the director of the overseas mission.

Following the enactment of the Foreign Aid Appropriation Act, each mission submits an operating program based on the amount earmarked for each country. Upon approval of the program by ICA/Washington, the funds are allotted and the mission initiates negotiations with the recipient country governments.

These negotiations, as they relate to point 4 and assistance in financing the construction or acquisition of capital investment facilities, culminate in agreements for individual projects, which agreements are the basis for recording obligations in the accounts of the

The agreements specify the nature of the project, the amounts committed by each government and other pertinent provisions. The United States commitment, for the most part, represents the estimated cost of materials, equipment and contract services to be procured outside the recipient country. The agreements are submitted to ICA/

Washington for approval before being finalized.

Thereafter the recipient country submits requests to the mission for orders authorizing procurement of specific supplies and services to be financed from the United States commitment. Orders as issued by the mission represent the extent to which definite steps for going forward with the project have been decided, although actual procurement is still to be done. These orders are recorded in the accounts as subobligations.

The mission, however, does not maintain accounting on the amount of outside contracting, although this is a more accurate measure of the implementation of the project than the so-called subobligations which are in reality not subobligations but merely authorizations to

proceed toward subobligation.

During the course of a project it may be decided to increase or decrease the commitment of either or both governments by reason of changes in the character of the project or in cost estimates, or in the extent of United States participation. An amendment is executed, which is handled in the same manner as the original agreement.

Another part of project-type aid is in the training of selected foreign nationals for participation in specialized courses in the United States, or in third countries. Training is initiated through a jointly executed training order which is issued for individual trainees selected and approved by representatives of both governments.

The training order serves as the obligating document and is re-

quired to set forth all reasonable specifics of the program.

Training courses are generally assigned to other United States Government agencies which are technically qualified in the respective

fields in which the training is being given.

Amounts to cover estimated costs of each course are advanced to the agencies by ICA from the funds obligated under training orders and the agencies are requested to account to ICA periodically on the status of the advances.

Fiscal procedures for nonproject aid

The administration of nonproject aid is centralized in the Washington office of ICA. The Washington office retains the pertinent program funds under its control for obligation and expenditure. As previously mentioned, non-project-type aid consists principally of financing the import of commodities but it has also been represented in special situations by cash grants and other financing devices.

## Financing commodity imports

After funds have been appropriated, the agency redetermines the level of commodity aid for each country in line with the funds appropriated and recent economic and political developments. From time to time, as economic and foreign policy considerations make it advisable, ICA notifies the recipient country of the funds available for financing commodity imports in categories desired by the recipient country and approved by ICA.

The principal administrative and obligating document used for financing individual import transactions is the procurement authorization (PA). This document is in the nature of an auxiliary agreement to the general bilateral agreement of economic assistance which

governs the general terms of United States financial aid.

The PA provides the machinery for a measure of control over utilization of funds, terms of procurement and financing, and at the same time allows the recipient country flexibility in the presentation of procurement requests and the selection of procurement channels.

Two methods of procurement are open to the recipient country: (1) through United States Government channels, which is required for surplus agricultural commodities, and (2) through its own pro-

curement channels.

In the former, the agency issues one document, the procurement authorization purchase requisition (PA-PR) which is both an approval of the country's request and a request addressed to the Federal agency to procure the commodity. Financing is handled between ICA and the procuring Federal agency. In the latter case the recipient country processes procurement through its own agencies or through local importers.

Financing is generally made through letters of credit issued by ICA to commercial banks. ICA receives the pertinent purchase and shipping documents and audits them as to price, eligibility of the commodity, and other requirements of its regulations. On transactions which do not conform to the regulations, the agency requests and obtains refunds from the recipient country. However, the refunds are

generally reprogramed to the same country.

Each PA contains a stated period for the delivery of the commodity. ICA regulations call for cancellation of the undelivered portion upon expiration of a stipulated period following the stated delivery date. Funds deobligated through cancellation of a PA are transferred to the account for unallotted funds available for programing and are frequently reallotted to the same country.

Cash grants

Occasionally nonproject aid has been in the form of outright cash grants. The agency has used this method in certain situations where the budgetary or general economic and political conditions of the foreign country were deemed to require immediate assistance. In these cases, funds have been obligated principally on the basis of an exchange of diplomatic notes.

Prior years funds deobligated and reprogramed

The mutual security legislation permits the reprograming of prioryear funds which become available through deobligation for the same general purposes as originally obligated. This authority is contained in the appropriation acts which authorize unliquidated obligations to

be consolidated with funds currently appropriated.

The fiscal records of the agency show that prior-year funds deobligated in fiscal year 1955 totaled about \$190 million which, in effect, augmented the program funds appropriated for the use of the agency during fiscal year 1955. The agency actually reprogramed \$185 million.

According to the records for the first nine months of fiscal year 1956, deobligations of prior-year funds for this period totaled \$84 million. Of this total \$41 million has been reprogramed to date. We understand ICA does not expect to reprogram all of the remaining balance before June 30, 1956.

Comments on nonmilitary fiscal practices

Any objective appraisal of the administration of the nonmilitary assistance program must take into account the character of the activities which comprise the program. The program and its underlying activities, together with the day-today operations, are carried on in

coordination with foreign governments.

Consideration must be given to laws, customs, practices, and traditions quite different from those of our own country. In addition, mutual security activities are authorized and carried out as an integral segment of the foreign policy of the United States. The effect is that the levels of aid, the timing, specificity, administrative mechanism, and methods of financing are sometimes affected by considerations of foreign policy which are not always consistent with sound program planning and execution.

Our views on the fiscal and administrative practices of the agency are necessarily from financial aspects. While we recognize the presence of foreign-policy considerations, we are not in a position to eval-

uate these considerations.

It should also be borne in mind that the nonmilitary assistance program has experienced significant changes over the past several years in the character of its activities and in the organizational structure for

its administration.

The effect of these changes was to create successive conditions of transition which hampered the development of a stable fiscal system. We would also point out that the ICA and its predecessor agency in the past 2 years have devoted encouraging effort toward improving its fiscal procedures. However, the fiscal procedures, particularly as laid down in the revised accounting plan, are exposed to internal strains within the agency brought about principally by exigencies encountered in the programing functions and we believe that only by continuous, concentrated effort can the agency obtain the consistent compliance with the prescribed ground rules that is essential to an effective fiscal system.

Overprograming [ ]

We believe that a significant portion of the annual programs proposed to the Congress for the past few years has been beyond the capacity of the agency and the recipient countries to get underway during the fiscal year for which the funds were appropriated.

The record of performance in many countries over the past few years shows a considerable lag in carrying out the annual programs.

especially those for project-type aid. While the agency is able to execute agreements which obligate substantially all available funds, a disproportionately high percentage has been in the last quarter of the year—approximately 50 percent in 1955. The effect of this is to preserve funds for programs, most of which cannot be initiated even as to preliminary steps until the following fiscal year. Unliquidated obligations at the close of fiscal years 1955 and 1954 amounted to \$1.8 billion and \$2.2 billion, respectively. These funds constituted a substantial pipeline of future activity.

Further evidence of overoptimistic planning is indicated in comparisons of proposed and actual recruitment of overseas personnel and of participants in the training programs. In previous years the agency consistently fell far short in the actual numbers of overseas personnel and trainees in terms of what it had proposed in its annual program

presentations to the Congress.

However, the number of overseas personnel proposed for 1956 was 25 percent higher than the filled positions for 1955. Similarly the number of trainees estimated for 1956 was considerably more than the

agency was able to get processed for 1955.

Several things contributed to overprograming. For example, the agency apparently does not consider realistically the available resources and capabilities of both the United States and the individual recipient countries.

Further, there is sometimes a preponderance of political over economic and financial considerations in determining the level of country

programs.

It is our view that in developing annual programs, the agency should give greater weight to past experience in respect of (1) the time required to negotiate agreements and to implement outside contracting, (2) the limitations on personnel recruitment, and (3) local political, economic, and technical conditions in the respective countries, and other factors in the conduct of program activities.

## Excessive obligations

Substantially all obligations are stated in estimated amounts, since the nature of assistance activities in most cases does not permit the determination of precise costs at the time that agreements are signed. We believe that it is incumbent upon the agency to review individual activities periodically in order that obligations may be adjusted in the light of current information about the scope, progress, and needs of the particular activity.

Such a systematic review has not been made and, as a consequence, substantial amounts of unliquidated obligations have been permitted to remain outstanding, although such funds in whole or in part were no longer needed for the purposes for which originally obligated.

# Advance planning

We believe that there has been a deficiency in advance planning both in terms of specific activities proposed for annual programs and of long-range objectives. This has been particularly apparent in project-type aid.

Prior to fiscal year 1955 the predecessor agencies of ICA lacked adequate procedures for formulating definite program plans prior to the execution of cooperative agreements. Funds were obligated for activi-

ties in broad fields of activity such as health, education, agriculture, and industry while specific plans for individual projects had not been

completed.

The new accounting plan which became effective in fiscal year 1955 is designed to assure commitment of United States funds only for specific projects based on definite operating and financial data. This plan has not been in operation for a sufficient length of time to evaluate its effectiveness. The effectiveness of the plan also depends on its adaptability to the constantly changing types of programs and the urgency with which these programs must be initiated.

Various situations have been disclosed in our audit examinations

which indicate the lack of adequate planning:

1. There has been a long-time lapse between the execution of project agreements and the initial implementing step.

2. Projects for which funds were obligated have been curtailed or

canceled and the funds used to finance other projects.

3. Projects have stretched out long past their estimated completion dates due to conditions that should have been resolved in the prepara-

tions for the projects.

4. In individual countries, the agency, through its missions, has in many instances committed itself to a wide diversity of projects within the respective fields of activity. Because of the limited number of technicians and other factors, the missions have so dispersed their

efforts as to be unable to administer the projects effectively.

The agency has not formulated long-range plans of technical assistance in terms of ultimate goals. The existence of such goals, while subject to adjustment from time to time, would lay the foundation for (a) more systematic annual planning and execution of programs, (b) measuring accomplishments in terms of goals set, (c) forecasting the ultimate termination of United States assistance, and (d) stressing the philosophy of recipient country participation and ultimate sole responsibility.

We believe that the establishment of ultimate goals in technical assistance and of annual programing within the framework of long-range planning is applicable, in varying degrees, to all countries

receiving this type of aid.

Program and budget presentation

The annual program and budget presentation to the Congress has varied in form and content over the past few years, as a result of efforts to streamline the document into a concise and uniform presentation. The primary objective has been to minimize the volume of data, and to furnish additional specific information as requested during the hearings before the congressional committees.

We believe that the presentation does not furnish a sufficiently clear and comprehensive picture of either past or proposed activities from which informed judgments can be made as to the reasonableness of the proposed program. Some suggestions are offered for change

in the presentation to enable a more intelligent evaluation.

1. There should be a clear distinction between the two principal categories of assistance activities, namely, project type and nonproject aid. These two types of aid differ as to their purpose and character, the lead time required for implementation and their basic program justification;

2. For project-type aid, there should be a brief description of major projects proposed for each country, together with related data as to cumulative obligations and subobligations, estimates of total costs to complete the projects, and of contemplated United States and recipient country financial participation;

3. For non-project-type aid, there should be more specific information as to the basis on which the level of proposed aid is computed; also, the status of open procurement authorizations, generally referred to as the pipeline of unshipped commodities, including such information as the amount, nature, and age of the procurement authorizations:

4. There should be an estimate of the amount of funds available in the current year through the deobligation of prior years' obligations and the estimated portion thereof contemplated for reprograming in

the current fiscal year; and

5. There should be a showing of the amounts for each country as requested in the presentations for the current and prior years, and disclosure of significant variations between the amounts obligated

and the amounts requested.

This data is reported separately pursuant to section 513 of the Mutual Security Act, but such reports are neither timely nor is the data easily related to the budget presentation when the latter is being considered.

## FISCAL PRACTICES IN CONNECTION WITH MILITARY ASSISTANCE UNDER THE MUTUAL SECURITY PROGRAM

The military assistance program of the Department of Defense is operated for the purpose of increasing the security of the United States and its allies. It is the policy of the Department of Defense to include in the military assistance programs equipment and services necessary to provide the foreign forces being supported with the maximum required capabilities. Selection of types of equipment and services within available funds is designed to meet the high priorities of the forces being supported.

Military assistance is now segregated into several types of activities which from a fiscal standpoint require two different methods of accounting for financial transactions. The first, consisting of activities for offshore procurement, shipbuilding in the United States, special military assistance program items, and services, is of a nature which permits the identification of fiscal transactions such as obligations and

expenditures in accomplishing the program.

Accordingly, these activities are financed by providing "direct citation" funds which are identified on each contract, order, and so forth,

and in the fiscal accounts.

The second method covers the area of supplying foreign countries with items which are in common use by the military forces of this Supply and fiscal actions taken prior to the delivery of end items are not separately identifiable from those actions applicable to the acquisitions of the same items for use by our own forces. These items are financed originally from regular military appropriations subject to reimbursement upon delivery. This technique is generally referred to as the common item order procedure.

In view of the significant dollar volume of activities and existing undelivered balances in the area of common item orders, we have endeavored to cover this phase of the military assistance program in our discussion today, rather than to deal with the fiscal situation in the

area of "direct citation" funds.

Prior to the fiscal year 1955, the Department of Defense was required to account and report separately, on an artificial and unrealistic basis, the common items required for both our forces and the recipient countries through the procurement and storage processes. This condition was brought to the attention of the Congress during the course of hearings on the mutual security appropriations for 1953 before the House Appropriations Committee.

As a result of those hearings, the General Accounting Office was requested by the House Appropriations Committee to make a survey

of the validity of obligations reported as of June 30, 1952.

## General Accounting Office survey

The survey was made with the cooperative assistance of the Bureau of the Budget and the Department of Defense and a report was

rendered to the committee on April 24, 1953.

The report revealed that policies and practices in effect were so irregular that the amount of obligations reported to the Congress were overstated, distorted, and misleading to such an extent that the figures could not have been relied upon to serve their intended purposes.

The deficiencies disclosed at that time have to be considered in the light of significant factors which affected the entire system and procedures for controlling, recording, and reporting of obligations. Due recognition must also be given to the magnitude and complexity of

the problems which confronted the Department of Defense.

Among these are the imponderable factors relating to the rapidity of scientific and physical changes, the necessity of accomplishing changes in a manner least disruptive to the continuing flow of a multitude of actions essential to national security, and the inherent vastness and complexity of the total undertaking. Each of these factors along with more measurable factors relating to the responsibilities of the management have their impact on the financial processes.

The conditions then existing in the Department of Defense and the significant factors contributing thereto were discussed in detail in our report. The report also presented a number of recommendations in terms of the major problem areas disclosed by the survey. The report indicated that many of the deficiencies could be cured through improved administration within the Department of Defense.

Other deficiencies were more fundamental in character and although their correction rested solely with the Department, the basic improvements required could only be accomplished by working out

detailed procedures over a period of time.

In still other instances, the deficiencies related to broad problems for which no solutions were readily apparent at the time and which required the cooperative efforts of all concerned, including the Bureau of the Budget, the General Accounting Office and the appropriate congressional committees.

# Actions taken as a result of the survey

It became apparent during the course of the survey that the largest amount of invalid obligations were being recorded for transactions covering material to be furnished from stock. We addressed a letter

to the Secretary of Defense on April 7, 1953, pointing out the serious deficiencies in the various bases used by the military departments in

recording obligations for stock transactions.

The letter also set forth specific criteria for application in the treatment of procurement orders or requisitions as obligations when deliveries were to be made from stocks of the agency to whom the orders or requisitions were issued.

In addition, our letter strongly urged that the matter be given immediate attention and that the unliquidated recorded obligations under all funds administered by the Department of Defense be analyzed and all such obligations for material to be furnished from stock be adjusted in accordance with the criteria set forth in the letter.

On April 29, 1953, the Secretary of Defense issued a directive to implement our recommendations. The directive required each military department to review all recorded obligations as of April 30, 1953, which were established as a result of stock transactions as well as collateral or related transactions. The directive required the agencies to make appropriate adjustments of their records.

Section 110, Public Law 778, approved September 3, 1954

In the conference report of July 28, 1953, on the Department of Defense Appropriation Act, 1954, the conferees directed that the Department of Defense, the Foreign Operations Administration, the Bureau of the Budget, and the General Accounting Office consult with one another with a view to reaching an agreement on the method of obligation and expenditure by the Department of Defense of funds allocated for military assistance.

The four agencies submitted to this committee, the Committee on Foreign Affairs of the House and to the Committees on Appropriations of the Senate and House of Representatives an outline of a plan to accomplish the directive included in the conference report. This plan included a statement of objectives, recommended methods of accomplishment, and draft language to be included in either the ap-

propriation or authorization acts.

Subsequently, the language, as revised, was enacted into law as section 110 of the Mutual Security Appropriations Act, 1955. In brief, section 110 provides: That military assistance funds with the exception of those obligated directly as for offshore procurement and other purposes would be accounted for by geographic area and country solely on the basis of the value of materials delivered and services performed; that within the limits of amounts available from funds allocated the Department of Defense was authorized to incur, in applicable appropriations, obligations in anticipation of reimbursements from such allocations; that no funds allocated and available should be withdrawn by administrative action until the Secretary of Defense certifies that they are not required for liquidation of obligations so incurred; that unobligated amounts of such allocations equal to the amount of orders placed with the military departments against current year allocations shall remain available until June 30, 1957, for reimbursements on the basis of materials delivered and services rendered; and that no reimbursements for materials delivered and services rendered shall be made after June 30, 1955, until the value of materials delivered and services rendered shall equal the amount of expenditures made from all appropriations made for military as-

sistance as of that date.

Section 110 also provided that the funds appropriated in the act would be consolidated with the amount of certified unliquidated obligations as of June 30, 1954, and be maintained in one account for all transactions.

The legislation provided the Secretary of Defense the much needed authority for the integrated financing of the military assistance program with that for the same or similar procurement of items in the military departments. The Department of Defense was provided with a means for proceeding in an orderly manner to consolidate the procurement of military assistance items with those for their own accounts, with the resulting procurement and supply management economies. The legislation also provided authority to adopt a relatively simple accounting and reporting basis for program performance in terms of materials delivered and services rendered under military assistance, as contrasted with the former overly complex and relatively uncoordinated system of financing military assistance procurement.

Under the former system, as previously stated, the Department endeavored from the inception of the program in 1950 through the Korean emergency to segregate, on an artificial and unrealistic basis,

the identity of these common items.

Implementation of section 110

On September 21, 1954, the Department of Defense issued an instruction stating the policy and outlining the interim procedures for handling mutual defense assistance transactions for the period from July 1, 1954, to October 31, 1954 (subsequently changed to January 31, 1955).

On February 14, 1955, the Department of Defense issued another instruction to prescribe uniform procedures for reporting on the activities of the Department in carrying out its responsibilities under

the mutual defense assistance program.

Subsequently, on May 17, 1955, after concurrence and approval by the Bureau of the Budget and the General Accounting Office, the Department of Defense issued a revised directive in lieu of the September 21, 1954, directive which covered the handling of fiscal transactions for military assistance provided under the Mutual Security Act of 1954 and related appropriation acts.

The directive stated the basic principles and policies and prescribed the procedures for financing, funding, accounting, and fiscal reporting

to implement section 110 and related legislation.

The May 17, 1955, directive and the implementing instructions were developed by representatives of the Department in cooperation with representatives of the Bureau of the Budget and the General Account-

ing Office.

Consistent with the intent of Congress, the directive provided for clearing up the unsatisfactory financial and accounting situation. It established understandable and workable accounting practices to bring about a full and complete disclosure for management to the Congress of the status of funds of both military assistance and regular military appropriations and performance under military assistance programs measured in terms of goods delivered and services rendered.

When funds are reserved in the military assistance appropriation for the value of the common-item orders, the military departments should, under applicable Defense regulations, increase the amount of fund availability in their regular military appropriations by a corresponding amount.

Therefore, to the extent that such common-item orders are issued late in the fiscal year, such as occurred last year (fiscal year 1955), an equivalent amount of funds should concurrently be made available

in the regular military appropriations.

Unless bona fide contracts, orders, or other forms of obligations as defined in section 1311 are incurred, such amounts in the regular military appropriations, should be included and reported in the unob-

ligated and unexpended balances of the Department.

The net effect is that to the degree procurement is not planned to replace the value of deliveries under the military assistance program, the regular military fund requirements to be supplied by direct appropriation should be reduced. The Department of Defense issued a policy directive on March 9, 1956, reemphasizing this point.

Military assistance funds merged with military appropriation

To summarize, the significant feature of the present system for military assistance, if properly executed, is that funds appropriated directly for our own military requirements are, in effect, merged with funds appropriated for military assistance.

Procurement and supply of common-item orders for military assistance are made from regular military funds on the basis of reimbursements to be made on delivery of material to a recipient country.

To maintain the status of the regular military funds, military assistance fund reservations are issued by the Secretary of Defense to the

military departments.

The consolidated program under which procurement is accomplished is likewise a merging of military hardware items for our own forces and the military hardware to be sent to foreign countries. We believe this is the proper approach. We know of no simple way to differentiate by separate accounting between contractual actions or obligations and expenditures which might at a specific point in time be considered to have been made for military assistance as distinct from those made on behalf of the regular funds of the military departments.

The previous attempt to differentiate in contracting between the sources of funds resulted in poor financial management. Insofar as the so-called common items are involved, the military assistance program is accomplished by obtaining equipment and services on a reimbursement basis from the regular military appropriations subject to the availability of such end items and services and, generally, the

capacity of the recipient country fully to utilize.

Thus, as contrasted with the accounting and reporting of obligations and expenditures under regular military appropriations on a procurement basis, the obligations and expenditures for common items for military assistance are accounted and reported for on a delivery basis.

Since current appropriation requests for military assistance are considered and made by the Congress on the basis of the need for funds at the point in time when procurement is to be initiated, this shifting of the obligational phase to a delivery basis has resulted in greater

unobligated and unexpended balances than would have existed under

previous procedures for the same program.

Additionally, the basic authority to incur, in the applicable military appropriations, obligations in anticipation of reimbursement from the military assistance appropriations was provided under section 110, and later under section 108 of Public Law 208, approved August 2, 1955. We believe that this legislation imposed upon the Secretary of Defense a responsibility to fully disclose the amounts of additional obligational authority provided for each of the regular military appropriations under which the procurement or issue from stock of common items would be accomplished.

Departmental instructions provide special accounting procedures necessary to establish accounting control over the value of the outstanding orders issued pursuant to the authority of the Secretary of Defense and the amounts available in applicable military appropria-

tions representing anticipated reimbursements.

Collateral legislation and actions

The Supplemental Appropriation Act, 1955, included section 1311 making specific provisions with reference to obligations. Section 1311 defined obligations and required the head of each Federal agency to certify as to the unobligated balance of each appropriation or fund under the control of the agency and to the amounts of unliquidated obligations as of June 30 each year, and to report thereon to the chairmen of the Committees on Appropriations of the Senate and the House of Representatives, to the Comptroller General, and to the Director of the Bureau of the Budget.

On September 3, 1954, the Acting Comptroller General prescribed

the reporting instructions for compliance with the statute.

Section 110, section 1311, and our letter of April 7, 1953, all had a significant impact on the recording of obligations in the Department of Defense.

All activities of the Department were required to review their obligations in the light of the new criteria. Reports rendered by the Secretary of Defense disclosed deobligations in the fiscal year 1954 of 1953 mutual assistance funds in excess of \$1 billion.

The amounts were deobligated for various reasons such as price changes, program revisions, definitization of contracts, reductions in quantities, invalid obligations, and clerical errors. Likewise, additional significant amounts have been deobligated in fiscal years 1955 and 1956.

Evaluation of present fiscal practices

There appear to be a number of factors which have a direct bearing on the present financial picture of the military-assistance program. Some of these factors represent economic or diplomatic considerations in foreign countries which are beyond the control of the Military Establishment, while others represent failures or deficiencies in administration.

Outlined below are the factors which we have been able to identify either as a result of our previous audit and review activities or as a result of recent limited examinations of records and discussions with representatives of the Military Establishment.

## Reprograming

The program for furnishing military support to designated foreign countries is based on a projection of troop strength which such countries have agreed to supply.

In many instances this commitment by the foreign country is not met, requiring the reprograming of items to be furnished within fund

authorizations already approved by the Congress.

The planned force goals for the several countries are contained in various State Department documents. Estimates as to when the countries will bring the desired units into being have been overoptimistic.

In addition to the problem of reprograming, the failure on the part of the countries to meet their strength commitments also resulted in the creation of excesses in certain of these countries. These excesses are both of an actual nature where inventories are available for distribution subject to the willingness on the part of the country to permit its return or redistribution to other countries, as well as "paper" excesses which represent items in the hands of troops which have been diverted for use in specific conflicts.

The support requirements of the forces to be supplied by certain countries are in excess of the funds available for such purposes. As a result, unfunded deficiency lists are maintained within priorities established in coordination with the military assistance advisory

groups located in the countries.

Upon determination that funds are available, the supplying organizations are required to develop programs for delivery which are then transmitted through the several interested agencies for approval and the issuance of common-item orders by the Office of the Assistant Secretary of Defense for International Security Affairs.

This process is probably necessary in order to properly direct and coordinate the overall program but is extremely time consuming. However, efforts are currently being directed in the Office of the

Secretary of Defense toward speeding up the process.

## Reserve status of certain funds

This aspect of the problem is further complicated as a result of the retention in a reserve status of a portion of the funds appropriated, based upon an agreement between the Office of International Cooperation Administration and the Office of the Assistant Secretary of Defense for International Security Affairs, in order to maintain a position of fluidity in the event of an international crisis.

The necessity for such reserves decreases later in the fiscal year and the funds held in reserve become available for use through the

process indicated above.

This results in the common-item orders being issued near the end of the fiscal year. It has been indicated that since there was a restriction placed on the percentage of such orders which could be issued in May and June of this year, the process was speeded up so as to have the orders issued by April 30.

Certification requirement

The Department of Defense has not complied, on a proper basis, with the certification requirements of section 1311 of the Supplemental Appropriation Act, 1955, and the provisions of section 110 of the Mutual Security Appropriation Act, 1955, and its own im-

plementing instructions. This deficiency resulted in the failure to completely disclose the relationship between the amounts reserved under the military assistance program and the extent to which such reservations increased unobligated fund availability under the regular military appropriations.

However, the Bureau of the Budget required the Department to disclose in the President's budget for fiscal year 1957 the amounts of additional obligational authority (approximately \$4.1 billion) provided under the military appropriations by reservation of mili-

lary assistance funds.

## Achievement of delivery schedules

In the Department of the Army, based upon the selective review made, deliveries generally met the projected delivery schedules es-

tablished in the program documents.

In the Department of the Air Force, however, program performance was not as effective. Significant differences were disclosed between the projected deliveries and the actual deliveries of the aircraft selected for review.

For example, during the period from July 1, 1955, to March 31, 1956, for one type of aircraft selected for review only approximately 50 percent of the projected deliveries were actually met. Similar lags in deliveries were noted in connection with the three other

types of aircraft reviewed.

Air Force representatives explained that the delays in deliveries were caused by many factors such as bad weather, inability of participating countries to meet their objectives for which the aircraft had been scheduled, postponement of countries' programs, diffi-

culties in production, and engineering modifications.

We have been advised that twice each year the program for projected deliveries of military assistance items is subjected to review by the representatives of the Office of the International Cooperation Administration, Office of the Assistant Secretary of Defense for International Security Affairs, the organizations of the military departments responsible for supply operations, and the military assistance advisory groups.

This is for the purpose of reevaluating the current status of the program as to the extent to which the foreign countries have met the projected force goals and the extent to which this country has

met its projected delivery commitments.

During November 1955, such a review took place resulting in a number of revisions to the program of the Department of the Army.

However, there was no overall monetary adjustment.

A selective examination of the common-item orders issued by the Department of Defense to the military departments revealed that such orders, other than those for aircraft, are not specific or restrictive

in terms of items to be delivered.

The orders represent dollar limitation within which adjustments of types of items or quantities thereof can be accomplished. This flexibility in itself may be desirable. However, the nature of the orders should be clearly recognized by the Congress in connection with the authority granted to continue through reservation action the availability of funds appropriated.

## Violation of law

At least \$400 million of military assistance appropriations, representing unpaid obligations overstated at June 30, 1954, has been retained by the Department of Defense in violation of the provisions of

the Mutual Security Act of 1954.

Under date of December 23, 1955, the Assistant Secretary of Defense (Comptroller) addressed a letter to the chairman of the Committee on Appropriations, House of Representatives, stating that the Defense Department relying on the military assistance program certifications (which were overstated in excess of \$400 million) initiated in June 1955, through the President, a request to reduce the 1956 budget request for military assistance program by \$225 million.

The letter further states that the overstatement would be offset, in part, by actual disbursements during the fiscal year 1955 against liabilities not qualifying under the criteria for dollar obligations as of the end of the previous fiscal year and, in part, by subsequent execu-

tion of valid obligations.

Actually, as explained in our report on the 1956 certification of obligations, the overstatement of obligations for the military-assistance program resulted, for the most part, from an understatement by the Department of the Army and the Department of the Air Force of the expenditures applied against otherwise valid, recorded gross obligations.

Under the circumstances, we feel that the Department's explanation in no way alters the fact that a violation of the law occurred and the amount overstated should revert to the Treasury, or corrective

legislation should be requested from the Congress.

Lag in payment of obligations

While we have not recently made a comprehensive review of related operations, it appears that the prescribed system for accounting and reporting common-item order transactions is generally sound. The deficiencies which we have noted seem to result from the failure to effectively execute the requirements contained in established directives.

For example, it is required that obligations are to be reported on the basis of actual deliveries with payments therefor following in the succeeding month. An examination of reports prepared by the Department of the Army indicated a difference in excess of \$100 million between the unobligated reservations and undelivered orders as of

June 30, 1955.

During the first 9 months of this fiscal year there were even greater differences in the reported balances. It was also noted the amounts of reservation balances as of June 30, 1955, and the amounts of reimbursements earned for fiscal year 1955 reported in the President's budget for fiscal year1957 were not in agreement with the records of the De-

partment of Defense.

We have been advised that the discrepancies identified are a result of operating difficulties in meeting due dates established to provide timely reporting. This unsatisfactory condition tends to defeat the basic purpose of the reports by limiting the degree of reliance that can be placed on analyses of information furnished. It is believed that the operating difficulties being encountered can be elim-

inated by aggressive corrective action on the part of the Department of Defense.

Pricing policy

Another problem area in arriving at reliable estimates of fund requirements under the mutual defense assistance program has been the lack of a firm pricing policy. For example, in the Department of the Air Force frequent adjustments have been made to reflect changes

in aircraft prices resulting at times in credit balances.

This problem area has received considerable attention in the past few months and a standardized procedure for pricing aircraft was recently established. We have been unable to evaluate the effect of this new procedure in view of its recency. It also appears that the major portion of the \$18.5 billion funded and programed through 1955 included World War II equipment and other material included in United States military stocks, which was not currently being issued to the military forces.

A substantial portion of the material programed was excess or outmoded items and was billed at 170 percent of the acquisition cost. We have been advised that the Office of the Secretary of Defense

We have been advised that the Office of the Secretary of Defense is requesting legislative authority for amending the policy to provide that standard prices currently used in supply actions between the military departments will be applicable to the mutual defense assistance program, except as specifically limited by legislative requirements.

As we have indicated, we believe that the present legislative authority for accounting for military assistance program funds on a deliv-

ered basis is sound.

However, there is no doubt that the military departments must make considerable improvement in their financial accounting and reporting technique, if the Congress is to be furnished with accurate and reliable data as to program performance and the status of funds.

Base appropriations on an accrued expenditure basis

As an overall matter, one of the basic problems in providing funds for the mutual security program—both miltary and nonmilitary—is the fact that at the time funds are requested to be appropriated by the Congress, the appropriate agencies are not, as a rule, in a position to furnish detailed information as to execution of planned programs.

A possible approach to this problem might be to state appropriations on an accrued expenditure basis. That is, appropriations would be made on the basis of goods to be delivered or services to be performed during the fiscal year, rather than on the basis of obligations to be

incurred.

Under such a concept, appropriate authority would have to be given to allow the commitments to be made. Such authority could be limited to particular periods, as Congress desired.

Requests for authority would not, for the most part, be supported

with detailed plans.

As plans take shape on the basis of the authorizations for commitment, the appropriate agencies would be in a position to know with more preciseness the projects to be carried out, the goods to be delivered, and the services to be performed in a particular fiscal year.

These data could be presented to the Congress and appropriations

made to pay for such projects, goods, and services.

Such a procedure would eliminate the present large carryover balances of annual appropriations and would place the Congress in a posi-

tion to make appropriations on a more informed basis.

The CHAIRMAN. Mr. Campbell, the committee desires to thank you for the very comprehensive report which I am quite sure will be very

helpful when we have the time to study it thoroughly.

The members of the committee present perhaps have some questions. The chairman is obliged to leave the meeting, and I am asking Senator Green to take over.

Senator Green, will you please take over?

Senator Green (presiding). Mr. Campbell, I am very much interested in your statement, which is detailed and informative.

## DRAFT OF LEGISLATIVE CHANGES REQUESTED

It draws attention to the fact that changes should be made in many places. I wonder whether you would say what additional legislation is needed.

Mr. Campbell. Mr. Chairman, in closing my statement I mentioned the matter of putting the appropriations on an accrued-expenditure basis: and if the committee wished to recommend that, then legislation would be required.

Otherwise, I do not think we are recommending any legislation.

Senator Green. Have you particular legislation in mind which might be helpful?

Mr. CAMPBELL. Not at this time, Mr. Chairman. Senator Green. Are you preparing such?

Mr. Campbell. We could have it prepared very promptly. We have not gone forward with it, but we have considered this problem very carefully, and we would be prepared in a very short time to present some.

Senator Green. It is very difficult for the legislative branch of the Government to provide the necessary legislation unless we have drawn to our attention not only the evils which it is intended to correct but

also the ways to correct them.

Mr. CAMPELL. The problem we have now, Mr. Chairman, is that if there are any improvements to be obtained through legislation, it would be too late in this fiscal year, in this session, to do it. We

would have to present it for the next session.

Senator Green. It is not too late to prepare such legislation so that it may be carefully considered. The very thorough study which you have made is valuable in itself, but I, as one member of this committee, would like very much to have your recommendations as to what additional legislation would help correct these evils.

Mr. CAMPBELL. We will do that for you very promptly. Senator Green. Will you do this before the end of this session?

Mr. Campbell. Yes, sir.

Senator Green. I think it would be very helpful to have that. (The information referred to appears on p. 1060 in the appendix.)

## CHANGES IN PRICING POLICY

There are one or two other questions that I would like to ask. You say the Secretary of Defense is requesting legislative authority for changes in the pricing policy.

What is that authority which he is requesting?

Mr. Campbell. Mr. Powers will answer that question, Mr. Chair-

Mr. Powers. I believe, Mr. Chairman, that that is the current bill before consideration of this comimttee which amends the Mutual Security Authorization Act.

Mr. Campbell. That bill is in the House. It is known as H. R.

10082 before the House Committee on Foreign Affairs.

Senator Green. I have a copy here in my hand. Mr. Powers. I believe, Mr. Chairman, the specific authority requested is an amendment to section 545 (h), which relates to definition of the term "value." That reference is contained in a committee print, section-by-section analysis of the Mutual Security Act of 1956, 84th Congress, 2d session. That was printed by the Committee on Foreign Affairs in the House and was issued this year.

Senator Green. And that is all you had reference to in your

statement?

Mr. Powers. Yes, Mr. Chairman.

#### CONFLICTING FIGURES ON FISCAL YEAR 1955 REIMBURSEMENTS

Senator Green. Thank you. You speak in your statement of the amounts of reimbursements earned for fiscal year 1955 as a point in the President's budget which are not in agreement with the records of the Department of Defense.

Do you mean there was contradiction there or were the figures on

a different basis?

Mr. Powers. We have not been able to reconcile the differences, Mr. Chairman. We believe, however, that the figures that we obtained from the Department of Defense have been adjusted as of a more current date than those which were included in the President's budget when he submitted them in January.

Senator Green. Have you asked for explanations for the contra-

dictions?

Mr. Powers. No, sir we have not.

Senator Green. What would be your policy when you find contradictory statements in different departments of the Government?

Mr. Powers. We would endeavor to reconcile to determine the proper basis for the figures that should be presented and disclosed to the Congress.

Senator Green. In this instance you have not done so?

Mr. Powers. No, sir; we have not.

Senator Green. Do you propose to do so?

Mr. Powers. Mr. Chairman, we would be glad to do it.

Senator Green. It seems to me it should be done. I do not know who is better qualified to do it than your agency.

Mr. Powers. Yes, sir. It would be necessary to review how the information was obtained by the Bureau in its preparation of the President's budget for 1957.

The figures which we have used are from the Department of Defense. It was indicated to us that those amounts had been adjusted to show the most current information available to the Department.

We have no basis for stating that the differences are due to any

improper practices or procedures.

#### VIOLATION OF LAW

Senator Green. Reference was also made to violation of the law. Has anything been done about that violation? Has it been reported elsewhere?

Mr. Powers. Yes, Mr. Chairman. Those violations have been

reported.

Senator GREEN. To whom?

Mr. Powers. They were reported to the Appropriations Committees, to the Director of the Budget Bureau, and to the Secretary of Defense. As is indicated in Mr. Campbell's testimony, the amount of violations which did occur was originally reported in our report of examination of unliquidated obligations in the Department of Defense for the period ending June 30, 1954.

That report was submitted to the House and Senate Appropriations

Committees and to the Secretary of Defense.

Senator Green. They had the report in connection with consideration of the appropriation bill for this fiscal year?

Mr. Campbell. Yes, sir.

## NOVEMBER 1955 REVIEW OF DELIVERIES

Senator Green. Earlier you stated that twice each year the program for projected deliveries of military assistance items are subjected to review for the purpose of reevaluating the current status of the program. During November 1955 such a review took place, but there was no overall monetary adjustment.

Mr. Powers. The results of that review were that there were resubstitutions of items which were included in the prior deficiencies list, which were made in place of those items in quantities that were

eliminated by the review.

As previously mentioned in Mr. Campbell's testimony, the military departments have not received total funds to cover the deficiency

requirements of the country force goals.

As conditions change and detailed reviews are made of the situations in each of the foreign countries, this information is passed back to Washington and is the basis for effecting a comprehensive review on what items should be substituted or changed in line with such current conditions.

This is all done within the monetary amount previously authorized

for this program.

## IS PROGRAM "PROPERLY EXECUTED"?

Senator Green. Another statement was made which I made a note of.

You say:

A significant feature of the present system for military assistance, if properly executed, is the funds appropriated directly for our own military requirements are in fact merged with funds appropriated for military assistance.

Why do you state "if properly executed?"

Are they not properly executed?

Mr. Powers. We believe, on the basis of our selective examinations made, Mr. Chairman, that the Department has, as contrasted with the situation that existed in 1952 and 1953, made significant improvements.

As mentioned in Mr. Campbell's testimony, we believe that in certain areas, that the programs and delivery schedules should be placed on a more realistic basis in line with those factors that relate to the modification of those plans and the actual program performance during the current time.

Senator Green. Then your answer to the question is that they are

not properly executed, is it not?

Mr. Powers. I think as a generalization that I would have to say that their performance in my opinion, Mr. Chairman, under the conditions that they have to work, has been pretty good, but that there are areas of improvement that are urgently needed.

Senator Green. That is rather a moderate and polite way of stating

the same thing.

Mr. Campbell. Mr. Chairman, I would like to say here that this is a tremendous job that the Defense Department has. It is very farreaching and quite complex, and whereas we do differ with them and have some criticisms, we do feel that they have made enormous strides in the last few years in improving their systems.

Senator Green. Well, it seems to be very complex. Mr. Campbell. No question about that.

Senator Smith. I agree to that.

## DEFENSE DEPARTMENT FINANCING TECHNIQUES

Senator Green. One statement was made that I would like to have clarified.

In view of the significant dollar volume of activities and existing undelivered balances in the area of common-item orders, we have endeavored to cover this phase of the assistance program in our discussion today rather than to deal with the fiscal situation in the area of direct citation of funds.

What is the significance of that.

Mr. Campbell. Mr. Chairman, Mr. Powers will discuss that.

Mr. Powers. The major part of their unexpended balances, Mr. Chairman, is represented by common-item orders placed by the Secretary of Defense with the military departments.

You will recall in Mr. Campbell's testimony that the Department of

Defense uses two distinct financing techniques.

Under one technique, the contracts, the orders, the expenditures, etc., are specifically identified in the accounting records. Under the other, where common-item orders are involved, that is the same kind of an item which our own forces as those of the foreign country, an order is placed by the military assistance program with the regular department funds, and the contracts are let for the combined procurement. The Department is unable to segregate in the procurement and storage process that portion which is military assistance and that which is regular defense.

Consequently the balance of the regular common orders which is represented in the unexpended balances currently existing today is very significant in contrast to the unpaid obligations against the direct

items of expense charged to the military assistance funds.

Senator Green. I see.

# SUGGESTIONS FOR MORE EFFECTIVE CONGRESSIONAL PRESENTATION

Now at one point in your remarks you made some suggestions for changes in the presentation that will enable a more accurate evaluation of the activities of the Department. You mentioned five in particular which seem to me to be very admirable, but why have they not been effected before this?

Mr. Campbell. This is in connection with the ICA.

Mr. Staples will discuss that.

Mr. Staples. We have been in consultation, Mr. Chairman, with the agency over the past 2 years, and these represent those things on which they have either not gotten around to or which we did not feel that they had reached a point where it was practical in their program development to include this kind of information in there.

Senator Green. I thought the suggestions were offered to us now.

But they have already been offered to ICA, is that correct?

Mr. Staples. We have talked to ICA about them at various times, but we have not yet put them in the form of formal recommendations to the agency.

Senator Green. Why not?

Mr. Staples. Because they have been engaged in the development of their new accounting plan, and we felt that we could not make solid, firm recommendation until they got their accounting plan more firmly nailed down.

Senator Green. Yes, but these suggestions are made to us now.

What do you think we can do about it?

Mr. Staples. Well, we think they can be taken up with the agency and that the agency now is or should be very close to a position where they should be able to implement these kinds of recommendations.

Senator Green. You mean that this committee can press them to

greater advantage than you could?

Mr. Campbell. Yes, sir.

Mr. Staples. Yes, we do believe that.

Senator Green. I just wanted to get the reason. Mr. Staples. That is correct, Mr. Chairman.

Senator Green. Senator Smith, have you some questions to ask!

Senator Smith. I have a few, yes.

Mr. Campbell, I gather from your statement, which is very comprehensive, that you have been going through a process of making substantial changes in the system of accounting, especially in the Department of Defense; is that a correct assumption?

Mr. Campbell. Yes, sir, and ICA also.

Senator Smith. I want to ask you this question.

# RELATIONS TO HOOVER COMMISSION RECOMMENDATIONS

I am familiar with the Hoover Commission studies and while I am not an accountant I have been very much impressed with some of the suggestions they have made. I am wondering whether the so-called Hoover recommendations for the Department of Defense have been embodied in any of the suggestions you have made to us today or whether these are made separately from them.

Mr. Campbell. I think that our suggestion having to do with the accrued expenditure appropriations is a principle recommended by the Hoover Commission.

Senator Smith. That is what I thought.

Mr. Campbell. Yes, sir.

Senator SMITH. So what you are reporting today in your splendid statement is that progress has been made both through the Hoover Commission studies and through your own studies and recommended changes to the Department of Defense and also to the ICA.

Mr. Campbell. Yes, sir.

# RELATIONSHIP OF DEFENSE FUNDS TO MILITARY ASSISTANCE FUNDS

Senator Smith. I wanted to get that clear.

I was not entirely clear and I am not yet clear as to whether you have a different system of accounting for military assistance funds which are our immediate responsibility here, and the regular Defense Department appropriations?

Mr. CAMPBELL. I think there is a difference in degree but Mr.

Powers will discuss that in detail.

Mr. Powers. Actually the funds, after having been allocated to the Secretary of Defense for the military assistance, are held in separate accounts, one for military assistance and the other for their regular

military appropriations.

After appropriate procurement directives are issued by the Department of Defense and specific programs of items and services to be furnished are approved by the Secretary of Defense and ICA the Secretary of Defense issues what is termed "a fund reservation" which reserves that amount of money to cover the cost of the items to be delivered to military assistance countries under that appropriation.

Based upon that fund reservation, the military departments are authorized to undertake procurement or supply action on behalf of military assistance, so that the actual payments to the contractors, et cetera, is made from regular defense funds, relying upon the author-

ity provided by the Secretary of Defense to do it.

In other words, he is the custodian of both funds. When delivery is made to the recipient countries, the funds previously reserved are used to pay the military departments for the cost of the equipment and services.

Senator Smith. Thank you very much for that explanation.

#### PRICING POLICY CHANGE

Now I want to ask you a specific question about a statement made to which Senator Knowland called my attention. I think an elaboration of it might be helpful to us.

The statement is:

It also appears that the major portion of the \$18.5 billion funded and programed through 1955 included World War II equipment and other material included in United States military stocks, which was not currently being issued to the military forces.

Now the next sentence is the important one:

A substantial portion of the material programed was excess or outmoded items and was billed at 170 percent of the acquisition costs.

We have been advised that the Office of the Secretary of Defense is requesting degislative authority for amending the policy to provide that standard prices currently used in supply actions between the military departments will be applicable to the mutual defense assistance program, except as specifically limited by legislative requirements.

The thing I want to emphasize is that 170 percent. On the face of it looks as though billing at these prices might make a theoretical profit for the Department.

Would you explain that?

Mr. Campbell. I will ask Mr. Powers to explain some of the details but the 170 percent is a legal requirement.

In other words, Defense has to charge those prices under the law

as it now stands.

Senator Smith. Then that is what is meant by the statement "the office of the Secretary of Defense is requesting legislative authority for amending that". You would institute a new pricing system for

that material, is that right?

Mr. Powers. It is our understanding that the Secretary of Defense has or intends to request this authority, although I am not sure of a specific piece of legislation that that is being done by. It is intended to amend section 545 of the Mutual Security Act which would permit them to use what we believe to be more appropriate pricing, and which would also be in line with the same prices being charged to the other military departments by the department doing the procurement.

#### OTHER QUESTIONS

Senator Smith. Now this final question:

Our staff has made a study of these matters and has prepared a staff memorandum suggesting questions for the Comptroller General.

There are seven of these questions.

They are rather technical in a way. I am going to request that these questions be taken by the Comptroller General and that answers to them be prepared for the record so it will have these carefully prepared questions and the answers by the Comptroller General's office if that is satisfactory.

Mr. Campbell. We will be very happy to do that, Senator Smith. Senator Smith. Thank you very much.

Thank you, Mr. Chairman.

(The information referred to appears on p. 1060 in the appendix.)

Senator Green. Senator Mansfield?

#### GAO RESPONSIBILITY

Senator Mansfield. Mr. Campbell, I want to compliment you on a very fine statement.

To whom is the GAO primarily responsible?

Mr. CAMPBELL. The United States General Accounting Office and

the Comptroller General both are responsible to the Congress.

Senator Mansfield. It is a congressional agency created by Congress for the purpose of exercising a watchdog capacity in a fiscal sense?

Mr. Campbell. Yes, sir.

Senator Mansfield. On that basis then you would have authority and supervision over all branches of the Government dealing with

appropriations?

Mr. CAMPBELL. Well, I would not say, Senator, that we have supervision over the agencies. We have the authority to audit records. investigate as conditions may require, and report to the Congress.

Senator Mansfield. I think you have the power of inquiry?

Mr. Campbell. Yes, sir.

Senator Mansfield. That is better than authority or supervision.

# DEFINITION OF "OBLIGATION"

Mr. Campbell, what is meant by the word "obligation"?

Mr. CAMPBELL. That requires a long answer.

I would say that an obligation as we in Government understand it is a requirement to pay a sum of money upon the happening of future events. The term has a legal status.

Senator Mansfield. Could you go into a little more detail than that and give us for the record an explanation of what "obligation" as such

means in this program?

Mr. Campbell. Well, I think that that question would be related principally to my discussion of as it affects section 1311, and I think Mr. Keller has that section with him, and I think that the definition of obligation as it appears there would answer your question.

Mr. Keller. Senator Mansfield, in the Supplemental Appropriation Act of 1955 the Congress for the first time spelled out what could be recorded on the books of the Government as an obligation.

That section deals with or sets forth eight different instances of what should constitute an obligation of the United States Government.

Senator Mansfield. Do you have those eight separate instances before you now?

Mr. Keller. Yes, sir, I do.

Senator Mansfield. Mr. Chairman, I ask that they be made a part of the record at this point.

Senator Green. They will be included in the record.

# SUPPLEMENTAL APPROPRIATION ACT, 1955

Partial Text of Public Law 663, 83d Congress [H. R. 9936], 68 Stat. 800, approved August 26, 1954

# CHAPTER XIII—GENERAL PROVISIONS

Sec. 1311. (a) After the date of enactment hereof no amount shall be recorded as an obligation of the Government of the United States unless it is supported by documentary evidence of-

(1) a binding agreement in writing between the parties thereto, including Government agencies, in a manner and form and for a purpose authorized by law, executed before the expiration of the period of availability for obligation of the appropriation or fund concerned for specific goods to be delivered, real property to be purchased or leased, or work or services to be performed; or (2) a valid loan agreement, showing the amount of the loan to be made

and the terms of repayment thereof; or

(3) an order required by law to be placed with a Government agency; or

(4) an order issued pursuant to a law authorizing purchases without advertising when necessitated by public exigency or for perishable subsistence

supplies or within specific monetary limitations; or

(5) a grant or subsidy payable (i) from appropriations made for payment of or contributions toward, sums required to be paid in specific amounts fixed by law or in accord with formulae prescribed by law, or (ii) pursuant to agreement authorized by, or plans approved in accord with and authorized by, law; or

(6) a liability which may result from pending litigation brought under

authority of law; or

(7) employment or services of persons or expenses of travel in accord with law, and services performed by public utilities; or

(8) any other legal liability of the United States against an appropriation

or fund legally available therefor.

(b) Not later than September 30 of each year, the head of each Federal agency shall report, as to each appropriation or fund under the control of such agency, the amount thereof remaining obligated but unexpended and the amount thereof remaining unobligated on June 30 of such year and copies of such report shall be forwarded by him to the chairman of the Committees on Appropriations of the Senate and the House of Representatives, to the Comptroller General of the United States, and to the Director of the Bureau of the Budget: Provided, That such report for the fiscal year ending June 30, 1954, shall be made not later than December 31, 1954, and shall include only such obligations as could have been recorded under the provisions of subsection (a) hereof.

(c) Each report made pursuant to subsection (b) shall be supported by certification of the officials designated by the head of the agency, and such certifications shall be supported by records evidencing the amounts which are reported therein as having been obligated. Such certification and records shall be retained in the agency in such form as to facilitate audit and reconciliation for such period as may be necessary for such purposes. The officials designated by the head of the agency to make certifications may not redelegate the responsibility.

(d) No appropriation or fund which is limited for obligation purposes to a definite period of time shall be available for expenditure after the expiration of such period except for liquidation of amounts obligated in accord with subsection (a) hereof; but no such appropriation or fund shall remain available for expenditure for any period beyond that otherwise authorized by law.

(e) Any statement of obligation of funds furnished by any agency of the Government to the Congress or any committee thereof shall include only such

amounts as may be valid obligations as defined in subsection (a) hereof.

# DEFINITION OF "RESERVATION"

Senator Mansfield. Mr. Campbell, what is meant by the word "reservation"?

Mr. Campbell. That term is used in connection with the military assistance program, and I think Mr. Powers has the complete answer

for you.

Mr. Powers. The authority for use of administrative fund reservation, Senator Mansfield, is contained in section 110 of Public Law 778, 83d Cong., which was repealed and superseded by section 108, of

the Military Appropriation Act for 1955.

It represents the amount for which the Secretary of Defense has certified will be reserved in the military assistance appropriation to pay the procuring military departments for the value of the common item orders that he has approved when the military departments make delivery to the foreign countries.

Senator Mansfield. Is a reservation as binding as an obligation? Mr. Powers. A reservation does not come within the criteria of section 1311, but so far as its effect upon the availability of balances, there is no significant difference between the obligations defined in section 1311 and the reservations authorized in section 110 and section 108.

Senator Mansfield. I will come back to that later.

Is the GAO kept fully informed of obligations and reservations by

the ICA at the end of each fiscal year?

Mr. Powers. The authority to use the so-called military assistance fund reservations was made only to the Secretary of Defense and not to the International Cooperation Administration.

#### END-OF-JUNE RESERVATIONS

Senator Mansfield. To your knowledge were there any legal obligations before July 1, 1955, or immediately thereafter?

Mr. Campbell. Senator Mansfield, we have a statement on that

which I could briefly read.

I think it will cover your question.

We have made a selective review of the approved program as of June 30, 1955, to determine to what degree, if any, funds were reserved during the latter part of the fiscal year (June 1955) which were unsupported by firm programs. Our review was based upon an examination of the forecasted delivery schedules covering selected items included in the program, and the actual deliveries made during the period July 1, 1955, through March 31, 1956.

Our examination did not disclose any reservations without adequate

program support.

However, our review in connection with the aircraft selected did reveal the significant differences existed between the programed or projected deliveries and the actual deliveries for the period July 1, 1955, through March 31, 1956. Such programs and schedules should be developed on a more realistic basis taking into consideration all related factors which are known to affect actual delivery performance under the program.

In the Army, based upon the limited review made, it was found that the actual deliveries generally met the projected delivery schedules

established in the program documents.

We made no detail review of the Department of Navy program documents or delivery schedules since the dollar value of common-item orders (\$259.8 million) was not as significant as that for the Army and

Air Force programs.

It was observed, however, that common-item order deliveries through November 30, 1955, totaled only \$38.5 million and projected deliveries for balance of the fiscal year 1956 amounted to \$31.9 million, making a total of actual and projected deliveries for the 1956 fiscal year of \$70.4 million.

The entire balance of \$189.4 million was projected for delivery in fiscal year 1957. This represents an increase of 269 percent over the current actual and projected delivery rate. No projections were made

for the 1958 fiscal year.

Our review did not include any examination of the program, schedules or deliveries for components, maintenance spares, or spare parts.

Senator Mansfield. Now, Mr. Campbell, on page 7 of your statement you make the statement there was \$190 million deobligated for fiscal year 1955 and \$84 million deobligated for fiscal year 1956. That is a true statement of fact I presume?

Mr. CAMPBELL. That has to do with ICA.

Mr. Staples, will you answer that, please?

Mr. Staples. Yes; that is a true statement of fact, Senator Mansfield, as taken from the records of the agency.

# DERESERVATIONS IN NEW FISCAL YEAR

Senator Mansfield. Now, Mr. Campbell, were any reservations unreserved immediately subsequent to July 1, 1955?

Mr. Campbell. Mr. Powers, will you answer that?

Mr. Powers. Mr. Mansfield, our review did not disclose any major modifications in the program on the basis of which the amounts which were reserved in June were eliminated.

We did find in the selective area a number of changes made by program substitutions. For the point of analysis it was found that these were resulting from current conditions that actually had developed subsequent to that period of time.

#### OVERSTATEMENT OF OBLIGATIONS

Senator Mansfield. The Defense Department, Mr. Campbell, you say in your statement has overstated its request for funds in 1954 and 1955; is that right?

Mr. CAMPBELL. Yes, sir. Overstated its obligations.

Senator Mansfield. Have they this year?

Mr. Powers. Senator Mansfield, do you have reference to the \$400 million?

Senator Mansfield. A good deal more than \$400 million as I will

try to bring out as we go along.

Mr. Powers. The amount of the \$400 million as included in Mr. Campbell's testimony, represents funds which the Department of Defense has held.

Senator Mansfield. For what year?

Mr. Powers. For fiscal year 1954 that have been carried over through fiscal years 1955 and 1956.

Senator Mansfield. Is that the extent of your knowledge of this overstatement of the Defense Department's analysis of its needs in this particular program?

Mr. Powers. On the basis of this selective review that is correct,

Senator Mansfield.

Senator Mansfield. While we are talking about review, I assume that the GAO carries on a continuous review of the funds expended under this program.

Mr. Powers. It is highly selective and does operate on a continuing

basis.

#### VIOLATION OF LAW

Senator Mansfield. Mr. Campbell, you say that Defense has violated the law in this respect and that those amounts should have reverted to the Treasury.

To your knowledge has the Defense recognized the criticism of the

GAO and acted to rectify it?

Mr. CAMPBELL. Senator, we mention the fact that the Assistant Secretary of Defense—that is the Comptroller—has written to the chairman of the Committee on Appropriations of the House, indicating that they had initiated through the President a request for reduction in the 1956 budget of \$225 million.

Now that is our knowledge of the steps the Defense Department

has taken.

Senator Mansfield. That is of the \$400 million?

Mr. Campbell. Yes, sir. Senator Mansfield. The other \$175 million was just kept and used for projects as they came along?

Mr. Campbell. As I understand it, yes. Senator Green. May I interpolate there?

Senator Mansfield. Surely.

Senator Green. Mr. Campbell stated:

We feel that the Department's explanation in no way alters the fact that a violation of the law occurred and the amount overstated should revert to the Treasury, or corrective legislation should be requested from the Congress.

# HISTORY OF RESERVATIONS AND OBLIGATIONS LAST YEAR

Senator Mansfield. Mr. Campbell, on April 20, 1955, the President asked Congress to authorize a mutual security program of \$3.4 million. At that time this committee was informed that the Department of Defense estimated that the military assistance funds which the Executive would not be able to obligate or reserve in accord with provisions of law would total \$100 million on June 30, 1955.

In May 1955, during consideration of the mutual security bill it was brought out that the Executive had asked not only for the simple authority to carry over this \$100 million amount but for broad language which would have permitted the carryover of any amounts not

obligated or reserved at the end of the fiscal year.

On May 26, 1955, during consideration of the bill an amendment was offered to allow the Defense Establishment to carry over \$150 million, even though they had said that their carryover on July 1, 1955, would be \$100 million.

At the suggestion of Senator Knowland, that amount was raised to \$200 million, and the Defense Establishment was allowed to carry over \$200 million.

The Senate accepted that amendment in good faith and passed a bill with that much of a carryover allowed for the Defense Establish-

Eleven days later after the Senate had passed the bill, according to the report of the Committee on Foreign Affairs of the House of Representatives, information was received on June 13, that the estimated unobligated balance would exceed the \$200 million limit fixed by the Senate amendment.

On June 21, 1955, according to House committee report, it, the House committee, received a memorandum from the executive branch, stating that the unobligated carryover of military funds would be,

and I quote, "some six hundred million."

Seven days later, on June 28, the chairman of the Committee on Foreign Affairs of the House of Representatives said in presenting the Mutual Security Act to the House, and I quote him:

On June 21 we received word that the estimated unobligated balance on June 30 would be \$670 million.

That was June 28. On June 30, the last day of the last fiscal year, a memorable day, Mr. Passman, of the House Appropriations Committee announced on the floor of the House and again I quote:

They-

the Department of Defense—

called yesterday and said it, the unobligated balance estimate, had gone up to \$932 million.

On July 1, 1955, the first day of the present fiscal year, at my request a member of the Senate Committee on Foreign Relations spoke with Mr. Shaw, Office of International Security Affairs, Comptroller, Department of Defense.

Information was received that during the last 24 hours of the month of June, \$575 million had been reserved or obligated, and that during the total month of June, \$983 million, nearly \$1 billion, had

been obligated or reserved.

#### GAO INVESTIGATION ASKED

That is the record, Mr. Campbell, and I think it calls for a thoroughgoing investigation. I tried on the Senate floor to call it to the attention of the GAO as well as to the Department of Defense.

I am not at all certain even yet that we actually know how much was reserved and obligated last June. I am very interested in finding out how much if any was deobligated or dereserved at the beginning

of the present fiscal year.

If my memory serves me correctly, Senator Ellender made the statement during the course of debate on the appropriations for the FOA that \$674 million—I may be wrong a few million one way or the other—had been obligated in the last 5 hours of the last day of the

last fiscal year.

Now Mr. Campbell, I do not think anyone, no matter how smart he is, could obligate or reserve that amount of money in 5 hours and do it on a sound businesslike and efficient basis. I sincerely hope that the GAO will continue to keep a close eye on these funds, because some of us who are interested in continuing an aid program are very much disturbed at the way funds are arrogantly used, it would appear, in the last month or the last 2 or 3 months of each fiscal year.

If you will look over the record, you will find that at the end of the last fiscal year, something like one-half to one-third of the funds which have been appropriated were spent in the last 3 months. It appears to me that that is a very questionable practice and it should be

investigated.

I sincerely hope that the GAO will give this committee the specific recommendations which have been referred to, and which our chairman, Mr. Green, has mentioned, so that we can take those recommendations and give you as much support as we possibly can.

I did not intend to make such a long speech, but this is a very serious

proposition.

A lot of money is being spent. A lot of money is being asked for. People are paying high taxes, and I think they are entitled to an accounting. I think the best way that accounting can be achieved is through action by the General Accounting Office and that action

should be backed up by specific recommendations from you to the Congress so that we can give you our full support.

That is all I have got to say, unless, Mr. Campbell would care to

make some comments on the remarks I have just made.

Mr. Campbell. Senator, you may be assured that we will follow up this matter. As Mr. Powers said, this is a continuing job with us, and we have every intention to bring to Congress whatever information they should have or they wish to have.

Senator Mansfield. Could you, Mr. Campbell, make a study of what happened to these funds which were reserved and obligated in

the last 5 hours of the last day of the last fiscal year?

Mr. CAMPBELL. We are aware of that problem, and we did go into

the matter but not to the degree you have in mind.

Senator Mansfield. Mr. Campbell, could you reexamine that matter, because that is a lot of money to spend in the last few hours?

Mr. Campbell. Yes, sir.

(The information referred to appears on p. 1068 of the appendix.)

# DIFFERENCE BETWEEN OBLIGATION AND RESERVATION

Senator Mansfield. Getting back to one of my original questions, I tried to bring out the difference between obligation and reservation.

It is my understanding that an obligation is something definite and that a reservation is something less and can be unreserved just as easily as it can be made.

I wish you would look into that particular aspect of this aid program as well, because I would not be at all surprised if you would find on investigation that there is a good deal more leniency in the

word "reservation" than there is in the word "obligation."

Mr. Powers. I think that is right, Senator Mansfield. Under the authorization provisions of section 110 and section 108, that flexibility was provided to the Secretary of Defense, and it serves a useful, practical operating purpose as we have observed in our limited examinations.

It provides them the means to realistically and more accurately report back to the Congress on the status of their funds, and how much

have been specifically obligated.

It is supported by common-item orders which are under the Depart-

ment of Defense regulations specific as to item and to amount.

And as we mentioned previously, Senator Mansfield, these items are substituted as conditions change so that any of those items which would be covered by common-item reservations as of one period of time may be changed or amended in later periods, depending upon the actual conditions.

# EFFICIENCY OF DEFENSE DEPARTMENT OPERATIONS

Senator Mansfield. Of course we all recognize that changes do occur, but we also recognize the fact that there is a need in a huge program of this sort, with its special emphasis on the military, for more orderly procedure, more businesslike methods, and a greater degree of efficiency.

Those of us who really favor an aid program and who want to make it more efficient and more businesslike, are accused of taking

the meat-ax approach when we vote on reductions, but our idea is to help the program and to make it more capable of carrying out the

objectives for which it has been created.

When we get these figures at the end of every fiscal year, we begin to worry a little bit, because the amounts are huge, and we can only hope they are being used in the most efficient manner possible.

That is all, Mr. Chairman.

Senator Green. I believe Mr. W. J. McNeil, Assistant Secretary of Defense, and Dr. Ralph W. E. Reid, Assistant Director of the Bureau of the Budget, came here this morning.

Do either of you care to give any testimony?

Mr. McNeil. There are a few points I would like to bring out that would help clarify some of the issues raised as well as some of the points Senator Mansfield raised.

Senator Green. What is your name?

Mr. McNeil. McNeil of the Department of Defense.

Senator Green. I am afraid we won't be able to hear you this

morning.

Senator Mansfield. Mr. Chairman, if he cares to make a brief comment now I think we ought to hear him in view of the questions I have raised and indirectly the charges I have made.

Senator Green. Do you have anything in writing to submit?

Mr. McNeil. No, sir. (See p. 870.) Senator Green. This meeting stands adjourned.

(Whereupon, at 12:30 p. m., the committee was adjourned.) (The following statement was subsequently furnished by the Bureau of the Budget:)

> EXECUTIVE OFFICE OF THE PRESIDENT, BUREAU OF THE BUDGET, Washington, D. C., May 24, 1956.

Hon. Walter F. George,

Chairman, Committee on Foreign Relations, United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: Attached is a statement from the Bureau of the Budget commenting on the testimony of the Comptroller General before the committee on May 21. We appreciate this opportunity to submit a statement for inclusion in the record of the hearing.

Sincerely yours,

Percival Brundage. Director.

STATEMENT OF THE BUREAU OF THE BUDGET SUBMITTED TO THE SENATE FOREIGN RELATIONS COMMITTEE

The Bureau of the Budget appreciates the opportunity to make a statement to the committee. The Comptroller General's review of the fiscal operations of the mutual security program has been very helpful to us.

# NONMILITARY PART OF MUTUAL SECURITY PROGRAM

In the nonmilitary part of the program, a major change was made in 1955 to yelop improved accounting procedures. This change was made in cooperation develop improved accounting procedures. with the General Accounting Office. Further improvements can be expected along the lines suggested by the Comptroller General, including advance planning, a reexamination of outstanding obligations, and a revised program and budget presentation. Some of these improvements would be facilitated by changes in legislation, and the President has requested a series of amendments to the Mutual Security Act.

Size and progress of annual program

The Comptroller General pointed out the difficulties in obligating funds for certain parts of the program prior to the end of the fiscal year. It should be noted that obligation peaks in later months of the year may occur because of the desirability and time required for evaluating the foreign policy implications of several related parts of the program before negotiations are completed and final agreement reached with an individual country. The administration is very much aware of this problem and is requesting changes in the mutual security program authorizing an appropriation legislation to allow for better timing of the use of appropriated funds.

We believe the provisions of the Appropriations Act which limit obligations in the last 2 months of the fiscal year to 20 percent of the total available should be deleted. Section 9d of H. R. 10082 would amend the Mutual Security Act to provide that one-fourth of most nonmilitary appropriations be continued available for 3 months into the next fiscal year. We believe that this additional period of time will improve our negotiations and planning with the other governments. It was noted that the unliquidated obligations at the end of fiscal year 1955

It was noted that the unliquidated obligations at the end of fiscal year 1955 were reduced from their 1954 level. It is currently estimated that the pipeline at the end of fiscal year 1956 will be at about the same level—\$1.8 billion. We believe that this is a reasonable pipeline in relation to annual expenditure levels of \$1.9 billion in fiscal year 1955 and estimated \$1.6 billion in 1956 and \$1.8 billion in 1957.

With reference to the problem of recruiting personnel for services overseas under the technical cooperation program, improvement in the situation over the last few years is reflected in the steady increase in the numbers of experts serving abroad. Various steps have been taken by the agency to speed up recruitment and overcome the drawbacks of overseas service. Most notable of these steps has been the increasing use of technical service contracts, particularly with American universities. The recruitment problem is compounded by the fact that not only must qualified personnel be found to meet expended program needs, but increasing numbers of experts and technicians sent abroad during early stages of the program must be replaced as they complete their tours of duty and wish to return to the United States. Continuing efforts will be required to meet the requirements of the technical assistance program in view of the shortage of qualified technical personnel available for overseas duty.

#### Need for advance planning

The administration has been concerned for some time over the problem of adequate forward planning of mutual security programs, particularly with respect to development projects on the nonmilitary side. The need for such advance scheduling and a greater continuity in the necessary joint planning with other countries has been the major factor leading to the administration's request for authority to make long-term commitments. This provision is contained in section 6 (1) of H. R. 10082, the proposed amendments to the Mutual Security Act.

Considerable effort and discretion on the part of the United States officials have been exercised in the past and will continue to be in order to: (1) plan ahead with other governments prior to the presentation of annual programs to the Congress, and (2) to complete the final negotiations after appropriations are enacted and obligate the funds within the time available.

# Reexamination of outstanding obligations

It is highly desirable that reviews of outstanding obligations be made on a systematic and comprehensive basis. Over the years, ICA and its predecessor agencies have reviewed from time to time certain critical segments of their programs. Such reviews have sometimes led to savings, such as the considerable amounts of deobligations in fiscal year 1955 for the special Indochina program which were reprogramed to meet other needs as provided by law. In addition, the process of certifying obligations under section 1311 of the Supplemental Appropriation Act, 1955, provides for a systematic review of obligations which permits continuing reexamination of the justification for the obligation. The Bureau will continue to work closely with ICA in developing a better and more systematic review.

ICA estimates for the Bureau and the Congress the amount of funds considered to be available in the current year through the deobligation of prior years' obligations. During the presentation of the fiscal year 1956 MSP request to the Appropriations Committees, FOA submitted an analysis of fiscal year 1955 deob-

ligations (pp. 259 and 274 of House hearings). An estimate for fiscal year 1956 was presented in the President's budget document last January. We understand this latter estimate is now being revised by the agency in its presentation to the Congress in order to incorporate the latest available information.

#### Program and budget presentation

The Comptroller General suggested improvements in the manner in which the program is presented to the Congress, primarily a more detailed presentation of individual projects and of the pipeline for each country. The current ICA presentation material is an improvement over that of prior years and contains a good deal of the type of information suggested by the Comptroller General. We are sure the International Cooperation Administration will be glad to discuss with the congressional committees any desired modifications of their fiscal year 1957 presentation books.

#### MILITARY ASSISTANCE PROGRAM

We have a particular interest in the successful operation of the new financial system for military assistance, since the Bureau of the Budget participated in the development of the basic plan, at the direction of the Congress.

The Comptroller General explained the techniques of the common-item order fund reservations. We believe the basic system is working successfully. Naturally, there have been difficulties and delays in implementing such an important change throughout the widespread procurement operation of the Defense Department. But we believe the Department of Defense is overcoming these difficulties as they arise and is constantly making improvements in the system.

Changes in legislation to permit more accurate pricing and to grant no-year availability for military assistance funds are necessary in order to make further improvements. The suggested changes are contained in the requested amendments to the Mutual Security Act, now being considered by the committee (H. R. 10082), and in the proposed appropriation language.

Pricing of materiel sold to the military assistance program

In his testimony the Comptroller General properly called attention to the inequities which result from the pricing criteria for sales to the military assistance program laid down in section 545 (h) of the Mutual Security Act of 1954, as amended. The current law requires that the price of a mobilization reserve item sold to military assistance be the cost of replacing that item with one which is equally good or better. The steadily increasing capabilities and costs of weapons cause much higher prices to be charged under the present formula for older goods whose market value is considerably less than that of new items. Since mobilization reserve stocks are the source of a relatively small proportion of military assistance deliveries, overpricing of these items does not have a great impact on military assistance expenditures; overpricing can, however, distort some country programs which include a heavy proportion of such equipment.

To correct these inequities, the executive branch has proposed section 9 (b) of the mutual security bill of 1956. The proposal would authorize and require the Secretary of Defense to establish a uniform, equitable pricing system governing, insofar as possible, all intra-Department of Defense sales, whether they be transactions between two military departments or between a military department and the military assistance program. New formulas being developed in the Department of Defense would yield a fair return to the seller based on his original acquisition costs, his subsequent improvements on items, and any depreciation in value resulting from wear and obsolescence and would at the same time protect the buyer from having to pay the price of a new item when he receives on old one. These formulas can be applied to military assistance transactions if Congress approves section 9 (b) of H. R. 10082.

Operation of the military assistance common-item fund reservation system

The Bureau of the Budget agrees with the Comptroller General's testimony that the fund reservation procedures adopted by section 110 of the Mutual Security Appropriation Act, 1955, have greatly improved military assistance supply and fiscal operations. Although improvements in the system of accounting for the flow of reimbursements from military assistance accounts to the regular military department appropriation accounts are still desirable, this problem does not suggest that the fund reservation system itself is deficient. Now that

the initial difficulties of converting from one method of financial operation to another have been largely overcome, the new military assistance financial system should provide better information and tools of control to both Congress

and the executive branch.

Implementation of the plan originally devised by the General Accounting Office, the Department of Defense, the Foreign Operations Administration, and the Bureau of the Budget is not yet complete, however. As the four agencies presented it to Congress in 1954, the new financial plan contemplated no-year appropriations for military assistance. No-year availability was considered vital to allow for orderly phasing of military assistance orders to the military departments and to insure that military assistance funds would be available to pay the regular military department appropriation accounts when long lead-time items are procured and delivered. This reasoning has been proved correct by experience so far under the new financial system, and was recognized by the granting of no-year authority in the Mutual Security Act of 1955, although fiscal year 1956 appropriations were not enacted on that basis.

Favorable congressional action on the President's request for no-year military assistance appropriations beginning in fiscal year 1957 will permit this last vital part of the new financial plan to be adopted. These changes are contained in sections 2 (a) and 9 (c) of H. R. 10082 and in the proposed new appropriation

bill language (H. Doc. No. 360).

# Control over the use of common-item fund reservation authority

Executive Order No. 10575 of November 5, 1954, required the Department of Defense to receive an apportionment of funds from the Bureau of the Budget before reserving them under the common-item order system. The Bureau approves apportionments for military assistance funds with a limitation on how much can be reserved for common-item orders. The Bureau's review of fund requests is the same for these orders as it is for ordinary obligational authority.

In the case of military assistance common-item transactions, the Bureau's apportionment review is perhaps more extensive than for most other activities. Fund requests go through a two-stage review. Once common-item orders are issued to the military departments on the basis of apportionments to the military-assistance account, the military departments must take up corresponding additions to the obligational availability in their regular appropriation accounts. In acting on subsequent military department reapportionment requests, the Bureau reexamines the total availability and the total buying programs for these accounts.

Both the Bureau and the Office of the Secretary of Defense insist that the common-item orders be for a specific list of end items rather than just for a lump sum of money. This has recently been clarified and reaffirmed. The orders now being signed contain a statement to the effect that, "An order is hereby issued for the common items listed in the attachment, which is made a part of this order."

The Bureau and OSD also review the requests for common-item order funds to see when the order should be placed—i. e., whether it is a long-lead-time order for new procurement, or a short-lead-time item available from the present stocks of the military services. In the review process, reductions are frequently made to eliminate orders which do not need to be placed at that time in view of the necessary lead time.

#### Timing of obligations and reservations

Representatives of the Department of Defense have already testified before the committee regarding their plans to try to speed up the annual programing process in order that common-item order fund reservations and obligations may be incurred earlier in the year. The timing of obligations and reservations can, of course, be advanced only after efforts to accelerate the program approval process have succeeded. The Bureau will continue to work with Defense, State, and ICA to advance both these aspects of program implementation.

It is frequently desirable not to implement sizable segments of the program until responsible officials evaluate the foreign policy and military implications inherent in the total program—with its various priorities and allocations among countries and types of military equipment. Thus, it sometimes happens that a major part of the program is implemented at one time rather than being spread equally over the year—as would be the case with the normal salaries and expenses type of Government appropriations.

No-year availability for military-assistance funds would, as experience with Department of Defense procurement appropriations has shown, tend to smooth out the rate of obligations and reservations by removing the annual hiatus which frequently occurs between the expiration of prior-year funds and the enactment of new appropriations.

Relation of military assistance fund reservations to regular military appropriation accounts

Basic to the common-item fund reservation system is the authority for regular military department appropriation accounts to incur obligations in anticipation of reimbursement from military assistance fund reservations established by the Secretary of Defense. From this it follows that status reports for regular military department accounts must cover both the normal obligational availability in those accounts and the additional obligational availability generated from military assistance fund reservations. That the executive branch fully recognizes this fact is shown by the presentation of fund reservation transactions in the 1957 budget document and by the requirements of the internal Department of Defense directive on military assistance financing, both of which items were cited in the Comptroller General's testimony.

The absence of complete accounting procedures has made it difficult to develop full accounting support for and completely reconciled reports on fund reservation transactions as they affect the regular military department appropriation accounts. The General Accounting Office, the Treasury Department, the Department of Defense, and the Bureau of the Budget are continuing efforts they began when the fund reservation system was adopted to perfect systems which will insure accurate, timely reports to Congress and the management authorities. We expect the reports on the status of fund reservation transactions as of June

30, 1956, to demonstrate substantial progress toward our objective.

Differences between the 1957 budget document and Department of Defense reports on the status of military assistance fund reservations

The military assistance schedules in the 1957 budget document were based on those Department of Defense records which most accurately reflected delivery

progress during fiscal year 1955.

Since fiscal year 1955 was a year of transition from the old to the new financial system and involved transactions to equalize military assistance expenditures with deliveries as intended by section 110 of the Mutual Security Appropriation Act, 1955, the fiscal records in themselves did not fully reflect delivery accomplishment in that year. Therefore, in developing the budget schedules, the fiscal records were supplemented by the best available delivery reports.

Because the complications of converting to the new financial system are now largely overcome, the Bureau of the Budget does not expect to encounter similar problems in preparing the 1958 budget document. Methods and instructions which will yield accurate and reconcilable Department of Defense, Treasury Department, and budget reports are now nearly completed.

Reported overstatement of June 30, 1954, unliquidated obligations

A major premise of the 1954 interagency recommendations for improving military assistance financial systems was that the procedures then in use did not produce accurate fiscal records. Believing it infeasible to reconstruct and adjust all prior transactions, the General Accounting Office, the Department of Defense, the Foreign Operations Administration, and the Bureau of the Budget recommended striking a balance between military assistance deliveries and expenditures on the basis of the best available records and then converting to simpler, more effective accounting methods for the future. Legislative history would suggest Congress accepted both the premise and the recommendations by enacting section 110 of the Mutual Security Appropriation Act, 1955.

Section 110, effective as of July 1, 1954, was enacted September 3, 1954. Section 1311 of the Supplemental Appropriation Act, 1955, applicable as of June 30, 1954, was enacted August 26, 1954. Implementing instructions for these interacting statutory provisions were not issued until much later in fiscal year 1955. It is the judgment of the Department of Defense that the retroactive application of these two provisions made it virtually impossible to reconstruct June 30,

1954, military assistance balances with complete accuracy.

On September 26, 1955, the Acting Comptroller General reported to the Appropriations Committees that an examination of some military assistance records indicated certified June 30, 1954, unliquidated obligations carried forward to

subsequent years were overstated by "at least \$400 million." Since the Acting Comptroller General stated "a complete audit requiring many thousands of manhours would not be warranted," the Department of Defense decided not to make another review of all June 30, 1954, military assistance fiscal records or to trans-

fer funds from the military assistance accounts.

Any further consideration of this matter should take these factors into account: First, past recognition by the legislative and executive branches that military assistance fiscal records prior to fiscal year 1955 are not susceptible of accurate analysis; second, the difficulties created by retroactive application of sections 110 and 1311 to a calculation of June 30, 1954, military assistance unliquidated obligations; third, the fact that section 1311 screening as of June 30, 1955, may have eliminated some June 30, 1954 unliquidated obligations carried forward into fiscal year 1955; fourth, the many administrative actions taken since June 30, 1954, which would be affected by a retroactive reduction in fund availability; and fifth, the fact that fiscal year 1956 appropriations and fiscal year 1957 appropriations requests have assumed the availability of prior certified balances and would, therefore, not be reduced by such an analysis.

Enacting mutual security appropriations on an accrued expediture basis

As indicated in the recent exchange of letters between the Director of the Bureau of the Budget and the President on the Hoover Commission recommendations, the Bureau believes that a change to appropriations on an accrued expenditure basis would be beneficial in terms of improving management and strengthening budget controls of both the executive branch and Congress. We recognize, however, that there is a considerable difference of opinion within Congress and the executive branch both as to advantages and disadvantages of accrued expenditure appropriations and as to the methods that would be needed for the financing and control of obligations in advance of appropriations, primarily for long-lead-time items.

We consider that enacting the mutual security appropriations on an accrued expenditure basis would be a good start toward this objective. However, before this can be accomplished the Department of Defense, the International Cooperation Administration, and other agencies would have to make the necessary changes in their budgeting and accounting procedures to place their accounts on a accrual basis. Therefore, we do not believe it would be feasible to imple-

ment this change in an orderly manner for the fiscal year 1957.

INTERNATIONAL COOPERATION ADMINISTRATION,
OFFICE OF THE DIRECTOR,
Washington 25, D. C., May 31, 1956.

Hon. WALTER F. GEORGE,

Chairman, Senate Foreign Relations Committee, United States Senate, Washington 25, D. C.

DEAR MR. CHAIRMAN: I send you herewith for the record, as promised, comments of the International Cooperation Administration on the statement of the Comptroller General, filed on May 21.

Yours very sincerely,

JOHN B. HOLLISTER.

ICA RESPONSE TO STATEMENT OF COMPTROLLER GENERAL, MAY 21 (NONMILITARY PROGRAMS)

This agency is happy to receive and to give full consideration to any constructive criticism of its operations. In this spirit, we have reviewed Mr. Campbell's statement on the fiscal practices of the nonmilitary aspects of the mutual security program. Mr. Campbell's suggestions will be given full consideration over the next months as ICA continues its efforts to improve its programing, operating, and fiscal procedures. Some of his conclusions deserve our immediate comment, since they are at variance with our considered views.

A sound evaluation of the fiscal practices of any organization must be based upon a clear understanding of the objectives of the program being administered and the conditions which govern the methods used to meet these objectives. Within the general framework of the United States foreign policy, the mutual security program aims to advance the security of the United States and the free world by (1) assisting the military effort of those countries which join in defense efforts and (2) contributing to the economic development of these and other countries, in a manner which promotes security and helps to maintain their

Both objectives are in the short- and long-term self-interest of the United States, as well as in the interest of the recipient country. This mutual objective is met through mutual programing and operations with cooperating countries, important to the preservation of the spirit of the joint effort and recognizing the importance of the interests and contributions of the other country. Unfortunately this consultative international program work frequently results in delays and fiscal problems.

On the other hand Mr. Campbell notes on pages 7 and 8 some of the difficulties which foreign policy considerations provide, resulting occasionally in more rapid action than would be adopted if sound program planning and execution were the only consideration. Mr. Campbell further notes that his views are expressed necessarily from the financial aspect. It is, however, these very foreign policy considerations which sometimes lead to less efficient programing than would be desirable, necessary because the achievement of foreign policy objectives must remain paramount. If Mr. Campbell were in a position to evaluate the foreign policy considerations in each of the specific instances where he or his staff think ICA programing and execution inadequate, he would probably have come to different conclusions about what was and what was not in fact overprograming.

For example, frequently, rapidity in committing United States funds is desirable from the foreign policy standpoint, even though deliveries of goods or services may not take place for some months. The pipeline of nonmilitary programs, incidentally, is of about 1 year's duration, which is by no means excessive in light of this kind of problem. In fact, that part of the economic aid problem which is based on policy considerations is becoming more rather than less difficult in respect to programing, obligating, and expending funds as United States interest in the fate of less developed countries (as contrasted with the more industrialized nations) increases. From this point of view, the \$1.8 billion pipeline is remarkably short.

Dealing with less developed countries concerning very complex matters necessarily involves long periods of time elapsing between the formulation of a project and its completion. It is only rarely that a country's own development plans and machinery for carrying them out have matured to a point where the flow of United States commitments results in rapid execution. Even in such cases engineering or other technical problems frequently cause substantial de-This can be said also about many similar projects in the United States, both Government and privately sponsored or funded.

Our comments in the following paragraphs are related to the four major points of discussion covered in Mr. Campbell's remarks.

#### OVERPROGRAMING

While there may have been past instances of overprograming, we disagree with the Comptroller General's conclusion that insufficient weight is given to the feasibility of undertaking programs in the character or magnitude proposed.

The programing process includes the following steps:

- (a) General policy guidance from Washington; (b) Program formulation in the missions overseas;
- (c) Careful interagency review in Washington;
- (d) Presentation to the Bureau of the Budget and review;
- (e) Review prior to congressional presentation; and (f) Examination prior to actual carrying out of program.

Each step gives opportunity for detailed feasibility tests. For example, where technical targets have proved to be too high, programs are adjusted. there have certainly been several failures, every precaution to prevent this is taken.

In providing foreign governments assistance of the type encompassed in the mutual security program, it is most difficult to determine what, in fact. is overprograming. The mutuality of the program requires that United States money must be in hand before others can plan jointly with us. The sights must be aimed fairly high, because foreign policy considerations frequently dictate that steps must be taken to advance the United States position even before the pattern of a program is worked out.

Concerning the problem of extensive obligations in the latter part of the fiscal year, the executive branch is seeking amendments to the Mutual Security Act (see H. R. 11356, p. 2, lines 5-6; p. 22, lines 15-20) to provide "no year" funds for military assistance and continuing 25 percent of funds under portions of the economic program to be available for 15 months. This should permit the

programing of funds in less haste than frequently the current legislation dictates. Again it is the nature of the aid problem that obligations take a longer time to accomplish than in the case of domestic programs which deal with salaries and goods easily procured. It is believed that ICA can, however, by adequate advance work, speed up materially the obligation rate, in the earlymonths of the fiscal year. Efforts will be made to accomplish this result.

#### EXCESSIVE OBLIGATIONS

The Comptroller General suggests (a) that a periodic review of obligations to eliminate excessive estimates has not been made by this agency, and (b) that substantial amounts of unliquidated obligations have been permitted to remain outstanding, although such funds were no longer needed for the purposes for

which they were originally obligated.

We contend that the record does not support these generalizations. Beginning with fiscal year 1954, and the inception of section 1311, this agency instituted a procedure under which a formal review of its outstanding obligations would be made as of the close of each year. Accordingly, a review was made (a) at the end of fiscal year 1954, (b) at the end of fiscal year 1955, and (c) is now in process for fiscal year 1956. In connection with each such audit review, those unliquidated obligations which the auditors considered excessive or invalid were deobligated from the accounts. In addition, a second audit was made in each instance by the General Accounting Office, and further adjustments made in the accounts where the GAO audit revealed additional adjustments were in order. It is, therefore, apparent that periodic reviews have been made and that such reviews and the subsequent adjustments in the accounts have prevented substantial amounts of unliquidated obligations from remaining outstanding when they were no longer required for purposes originally intended.

So that the committee may properly appreciate what has been done by this agency in the way of financial improvements the committee's attention is invited

to the following.

1. Basic concepts.—The accounting system and the obligation concepts used by this agency were developed in very close collaboration with the General Ac-

counting Office.

2. Procedural instructions.—The agency has issued comprehensive procedural instructions to all operating elements in the overseas missions, reiterating the need for a continual review of unliquidated obligations, with particular emphasis on a year-end review, so that June 30 fiscal year statements will reflect only obligations which can be justified as valid within the terms of Section 1311.

3. Continuing review of obligations.—As a result of findings in the first Section 1311 examination, the agency organized during fiscal year 1955 an obligation review task force to provide necessary direction and coordination to a "during the year" continual review by allottees and other responsible officials

of all program type and unliquidated obligations.

4. Formal periodic reviews.—The agency's audit staff has made a formal review of unliquidated obligations as at the close of each fiscal year since section 1311 of the Supplemental Appropriation Act of 1955 was enacted. In both the fiscal year 1954 and the fiscal year 1955 examinations, our own auditors disqualified considerable amounts which were subsequently removed from the accounts. It is apparent that our position in fiscal year 1955 was considerably improved over the prior year. The General Accounting Office review of our fiscal year 1955 Section 1311 certification indicated that they only considered approximately one-tenth of 1 percent of the agency's certified unliquidated obligation figure as invalid.

5. General improvements.—The agency's progress in improved financial administration has been commented upon favorably by the General Accounting Office in its sixth and seventh Annual Progress Reports on the Joint Program to Improve Accounting in the Federal Government, as well as in the Comptroller General's letter of July 6, 1955, which approved the ICA Accounting Manual. In addition, the Bureau of the Budget and the staff papers of the Hoover Commission Task Force on Overseas Economic Operations have recognized and com-

mented favorably on our progress in the financial field.

This record is adequate evidence that the agency is making a very intensive effort to keep the fiscal records and reports in order and to insure itself that the obligation figures reported in its financial statements are current, accurate estimates of amounts obligated pursuant to law. It is recognized that the very few individual cases of controversial nature, which on occasion have been dis-

cussed, are not representative of the general obligation picture. This we contend has been vastly improved over the last 3 years, to the extent that the current status of our accounts and reports meet all congressional requirements.

#### ADVANCE PLANNING

The Comptroller General singled out one of the principal weaknesses in the programing of foreign aid, namely, the lack of as close a relationship as would be desirable between individual project undertakings and long-run objectives. ICA, State Department, and other agencies and institutions recognize that more must be done in connection with this problem, and are giving a good deal of attention to it. ICA has been handicapped by a lack of knowledge about how long its program would continue to be authorized by the Congress. This, together with the shifting objectives resulting from shifts in Soviet tactics, has made long-range programing extremely difficult.

It should be remembered that in many cases it is difficult to work out in some countries greatly in advance of the time when funds become available details of specific projects without arousing unduly hopes that such projects will be undertaken. Preliminary and tentative discussions can be undertaken but great care must be taken to see that these are not so specific as to cause embarrass-

ment.

In the case of projects to last more than 1 year, in the absence of authority such as that requested in the Executive Branch Mutual Security Act of 1956 (sec. 421), it would be improper to enter into commitments to projects very long in advance, even though this might, in particular cases, be good programing procedure.

#### PROGRAM AND BUDGET PRESENTATION

Each year the agency administering the mutual security program prepares elaborate displays for the congressional committees reviewing, authorizing, and appropriating for the program. The agencies had understood that by and large the congressional committees have found adequate material presented, in a form developed over the years to meet their wishes and those of their staffs. In cases where further detail has been requested it has always been provided rapidly on a supplemental basis.

Mr. Campbell is apparently not aware of the comprehensiveness of congressional presentation material. In connection with his five specific suggestions on

page 13. the following comments are made:

1. The method of presentation for the fiscal year 1957 program was designed to make in as brief a document as possible a clear distinction between the varying types of assistance proposed. While the terms "project" and "nonproject" types of aid were not specifically used in this presentation, largely because it was felt that these terms might not be familiar to the Congress, the tables contained in volumes II, III, IV, and V of the presentation books contain at least in summary form much of the information which Mr. Campbell's statement indicates desirable. The tables entitled "Summary by Major Activity" distinguish between project aid, broken by fields of activity and the import of salable commodities (nonproject aid), the latter in turn broken down between military and nonmilitary activities.

2. In volume V, which was prepared as a supplement to the principal presentation volumes, complete detail of projects, major and minor, was provided to

amplify the field of activity figures in the table heretofore mentioned.

3. Volumes II and IV contain specific information as to the basis on which the nonproject aid was computed and this has been supplemented by oral ex-

planation before the congressional committees.

4. While specific information on the extent of deobligations of prior years' funds is not contained specifically in the formal presentation books, this information is readily available, and was supplied to the House Appropriations Committee as supplemental information in connection with last year's appropriation hearings. It will be supplied to that committee again this year, and to the Foreign Relations Committee if it so desires.

5. As to the problem of recording the changes between the program requested of the Congress and the ultimate programs carried out, the section 513 reports provide full explanations of significant variations. Interim reports could be made on a more frequent basis than now prevails, but since the programs in many countries necessarily change through the last months of each fiscal year, interim

reports would be of limited value.

# MUTUAL SECURITY ACT OF 1956

# **TUESDAY, MAY 22, 1956**

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS, Washington, D. C.

The committee met, pursuant to call, at 10:35 a.m., in the Committee Room, United States Capitol Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Green, Fulbright, Humphrey, Mansfield, Long, Wiley, Smith (New Jersey), Langer, and Knowland.

The CHARMAN. The committee will come to order.

We have this morning Assistant Secretary of State for Far Eastern

Affairs, Mr. Robertson.

We regret that we cannot start off with a full committee, but we are extremely busy with so many things going on at the same time. Other members of the committee will be in very shortly.

Mr. Secretary, you may proceed, and if you wish to make your statement before any questions are asked, that will be quite agreeable

with the committee.

STATEMENT OF WALTER S. ROBERTSON, ASSISTANT SECRETARY OF STATE FOR FAR EASTERN AFFAIRS; ACCOMPANIED BY RAYMOND T. MOYER, REGIONAL DIRECTOR, OFFICE OF FAR EASTERN OPERATIONS, INTERNATIONAL COOPERATION AD-MINISTRATION; E. PERKINS McGUIRE, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MDAP, INTERNATIONAL SECURITY AFFAIRS: AND D. A. FITZGERALD. DEPUTY DIRECTOR FOR OPERATIONS, INTERNATIONAL COOPERATION ADMINISTRATION

Mr. Robertson. Mr. Chairman, what I should like to do, in order to save your time, would be to submit my statement for the record rather than to read it.

The CHAIRMAN. Yes, sir; you may do so.
Mr. Robertson. However, I would like, with your permission, to present orally a summary of the policy considerations which, in our judgment, make this program imperative.

The CHAIRMAN. We would be very glad to have you highlight your

statement, but the full statement will go in the record now.

Mr. Robertson. Yes, sir. Thank you.

# (Mr. Robertson's prepared statement is as follows:)

STATEMENT BY HON. WALTER S. ROBERTSON, ASSISTANT SECRETARY OF STATE FOR FAR EASTERN AFFAIRS

I appreciate the opportunity to appear in support of the Far East portion of the Mutual Security program for the fiscal year 1957. It is my deep and sincere conviction that this program is essential to the successful implementation of our foreign policy and the carrying out of United States objectives.

I accompanied Secretary Dulles on his recent trip to the Far East. I returned from that trip with an increased awareness of the threat which still faces us, a conviction that the past year has resulted in increased competence on the part of the United States and the free world to deal with this threat, and finally a strengthened conviction that the Mutual Security program continues to be a sound approach to the solution of the problems in that part of the world.

#### SITUATION IN THE FAR EAST

In the Far East the United States is extending aid under the Mutual Security program to nine countries—Japan, Korea, the Philippines, Indonesia, Vietnam, Cambodia, Laos, Taiwan, and Thailand. I should like first to describe briefly the present situation in this area, the very real dangers which still confront us, the progress we have made and the political considerations which make it so important for the United States to continue these programs. After that, the specific programs will be summarized for you by Dr. Raymond T. Moyer, ICA Regional Director for the Far East, who will cover the nonmilitary portions of the program, and by Deputy Assistant Secretary McGuire of the Department of Defense, who will discuss the military part of the program.

The area we are talking about—the free world Far East—is a region only

in a geographical sense. There are greater differences than similarities between the countries except that they, all but one, share the common problem of being underdeveloped by western standards. In the area are nearly 300 million people, most of whom are small farmers with an average holding of about 1 to 2 acres. The variation in population density is dramatic, ranging from 16 per square mile in Laos, to 1,000 or more in some parts of Java, and Japan. Nobody really knows what the per capita income is but the best estimates we have run from about \$50 a year in the poorest country to \$300 a year in the richest

country.

The area provides the free world with about 92 percent of its abaca, 88 percent of its natural rubber, 41 percent of its rice, 66 percent of its copra, and 65 percent of its tin. There is still a tremendous potential of available minerals oil, bauxite, iron ore, chromium, tin, manganese, sulfur, nickel, et cetera.

Politically the area is characterized by a very strong spirit of nationalism and independence. These nations are determined no longer to be regarded at home or abroad as second-class citizens. To many of them the colonialism they have experienced appears to be more of a menace than the threat of communism.

#### PRIMARY OBJECTIVE OF UNITED STATES POLICY IN THE FAR EAST

The primary objective of our policy in the Far East can be stated quite simply. It is to strengthen the free world and to curb the power and prevent the expan-The Mutual Security program is an increasingly essension of communism.

tial factor in the attainment of that objective.

Of the 12 independent countries in the area, all but 3 are strongly anti-Communist and these 3 cherish their independence but apparently believe the way to maintain it is to remain "uncommitted" or "neutral" as between the 2 world-power blocs. This does not mean that we cannot help them. that it is important for them to understand that this help is not proffered as a means to buy their friendship (which can never be bought), or their support, or to put them under obligations to us, but simply because we consider that an identity of interest exists between us. This identity is our mutual desire to insure that they have the strength to mainain this very independence.

The people of free Asia have aspirations for a better life which they are determined to fulfill. This program, through technical and economic development assistance, is helping them to achieve these objectives. The military assistance part of the program is assisting them in maintaining internal order and security

and in creating a first line of defense against aggression while they build up in a nonmilitary sense internally. But it is the success or failure of this mutual security program, in giving these nations hope that they will be more secure and better off tomorrow than they are today, that will determine whether they succumb to the blandishments of communism. This hope, if it is to last, must be firmly grounded in their own experience that progress is being made, that they are, in fact, better off today than they were yesterday, and that when tomorrow becomes today, the same thing will be true. Faith and hope are the stuff of which free nations are made. Our aid programs are assisting the governments of free Asian countries in making such faith and hope possible.

# PROGRESS IN THE FAR EAST

As Secretary Dulles said upon his return from his recent trip to the Far East, "The day is past when the peoples of Asia will tolerate leadership which keeps them on a dead center economically and socially, when each generation merely ekes out a bare subsistence, with a brief life expectancy, and passes on to the next generation only the same bleak prospect."

As mentioned earlier, I had the privilege of accompanying Secretary Dulles The situation in this part of the world is still serious, there on his recent trip. are still many points of tension, but there is general improvement in free world competence to deal with these tensions. Doubtless there will be setbacks from

time to time but the general course is one of progress.

For well over a year the forces of armed aggression in the area have been held This fact, and the radical change in Soviet tactics in recent months, are, in my opinion, evidence of the effectiveness of the courses of action we have been following. Millions of free Asians have, in consequence, enjoyed a measure of peace even though living under the constant threat of a renewal of armed aggression. That threat remains deadly serious throughout the region as it did a year ago. Let us look at it squarely.

#### COMMUNIST ACTIVITIES IN THE AREA

In Korea the Communists have not slackened the buildup of their combat capability in the North. Chinese Communist troops are still in occupation of North Korea. They have introduced, in flagrant violation of the armistice agreement. a modern jet air force and new types and larger quantities of other equipment that greatly increase their striking power. The experience with aggression in 1950, the enormous stake which the United States and the United Nations have in a free and independent Korea, and this threat posed by the Communists to the north make it essential that we maintain our guard in Korea. be complacent in this situation.

Opposite Taiwan, the Chinese Communists are building 10 airfields between Shanghai and Canton to accommodate jet planes, multiplying their gun posi-

tions, and constructing a military railroad into the port of Amoy.

The Korean story is repeated in Vietnam where, in callous violation of the Geneva agreement of 1954, the effective strength of the fighting forces of the Viet Minh has approximately doubled since the cease fire, and it is reported that artillery firepower has been increased some sixfold. Equipment and training are being furnished by the Chinese Communists.

In other parts of the region the Communist tactics are more insidious, but

the threat is nontheless real and menacing.

In Japan, that industrial powerhouse which is a prime Communist target. the Communist Party is a legal entity with a following estimated at close to 1 million. One of the few gestures in the Far East toward the spirit of Geneva was made by this organization when in July 1955 it renounced past "errors" of violence and extremism. This lipservice would have meant more if the party had not maintained an underground organization with a paramilitary arm which they have used for purposes of espionage, sabotage, and the instigation of mass violence.

In Laos, the Pathet Lao, covertly supported by the Communist Viet Minh, flaunt the Geneva agreement in continuing to occupy the major parts of two They send their agents into other parts of the country to northern provinces.

stir up trouble and subvert the legitimate government.

In Thailand, the people recognize the potential threat to them of continued occupation of these Lao provinces and see beyond in adjacent Red China the "Greater Thai State" created by the Communists. There they see a former

Thai Premier calling upon the people of the Thai race living in Thailand, Laos, and Burma to overthrow their free government and substitute communism.

In Singapore, Communist elements have made disturbing advances particularly in the fields of education and labor with their tactics of violence and subversion. In the Federation of Malaya the British are still fighting their long war against Communist guerrilla terrorism.

In Indonesia, a country which 8 years ago put down forcefully an attempted Communist military coup, the Communists have succeeded in reestablishing themselves in the political sphere and in the recent general elections polled 16 percent of the vote and emerged as Indonesia's fourth largest party. However, on the plus side, a new non-Communist government coalition has been formed which includes all major non-Communist elements.

In Burma, the Soviet bloc has moved swiftly and adroitly to exploit the situation there. Faced with a large, burdensome surplus of rice, to which its economy is tied, Burma has been forced to find markets in any quarter. In consequence, Burma is one of the neutrals that was singled out for special courtship by Bulganin and Khrushchev with offers of technicians, equipment for agricultural and industrial development, schools and cultural exchanges. During a recent visit, Mikoyan initialed an agreement with Burma by which the Soviets undertake to supply capital and other goods as well as "technical services" in exchange for 400,000 tons of rice annually for 4 years.

Finally, throughout the area, in addition to lavish offers of economic aid and technical assistance, internal pressures in the form of subversion and economic and psychological warfare are being brought to bear in every country in the Far East.

From these stark facts it is evident that the program adopted by world communism to achieve its purpose of domination of the Far East has taken a new tack. When the Communists were prevented from achieving their aggressive goals in Korea and Vietnam, due largely to the ability of the United States to take effective action with the approval of Congress and the funds provided under the Mutual Security Act, they did not abandon their aggressive designs. The new tactic combines a buildup of military strength with a form of economic warfare designed to overshadow the military preparations. Thus, in the Far East, we are faced with a two-pronged offensive by the Communists. The new element is their effort at economic penetration, by which they hope to achieve what they were prevented from doing by armed aggression.

#### PROGRESS BEING MADE IN VIETNAM

It is clear that there is much to be done. It is also true that much has been done and that genuine progress has been made in the last year.

A little less than a year ago when the aid program for fiscal year 1956 was presented before this committee, you were informed of the tremendous odds against which the newly independent Government of Vietnam was fighting. It was faced with the military and subversion threat of the Communists to the north of the 17th parallel; it was confronted with internal strife. There was the ominous challenge to the government's control posed by the armed, self-seeking political religious sects; there was the urgent necessity for resettling hundreds of thousands of refugees who had fled Communist domination following the military partition. The problems were well-nigh overwhelming. The program you approved at that time has made possible our continued support of this new republic in the economic and military sphere. We can, I believe, take great satisfaction in the remarkable improvement in the situation which without our contribution would have been impossible.

We now find a firmly entrenched nationalist government under the leadership of President Diem. This government has proved its capacity not only to survive in the face of Communist subversive efforts but to assume the responsibilities of independence. The Diem government has achieved a decisive victory in the recent elections for the assembly which is now meeting to ratify a constitution for Free Vietnam.

Our own efforts in Vietnam are directed in the first place toward helping to strengthen internal security forces. These consist of a regular army of about 150,000 men, a mobile civil guard of about 45,000 and local defense units which are being formed to give protection against subversion on the village level. We are providing budgetary support and equipment for these forces, and have a mission assisting in the training of the army. We are helping to organize, train

and equip the Vietnamese police forces. Some 600,000 of the more than 800,000 refugees who fled to South Vietnam to escape the Vietminh are being resettled on productive lands with the assistance of funds made available by our aid program. In various ways under "defense support" our program also provides assistance to the Vietnamese Government designed to strengthen the economy and provide a better future for the peoples in that area.

#### SITUATION IN KOREA

In Korea we are demonstrating with other nations of the United Nations that a free nation can successfully be defended against Communist aggression and can be reconstructed and built up to defend itself. Our aid program is the major factor in the support of the Korean Army, which is, with United States aid and support, the largest among the free nations of Asia. That army has obviously become an effective deterrent against further aggression by the Red Chinese and North Korean armies entrenched beyond the 38th parallel. Korea's 21 divisions which we believe continue to be essential are far beyond its ability to support. Even without the burdens of this military force, Korea would need outside economic assistance for several years to come to complete the rehabilitation of the country and develop the economy so it can ultimately become self-supporting.

#### SITUATION IN FORMOSA

Taiwan continues to occupy a position of key importance in the free world's island chain of defense in the western Pacific. We continue to regard its defense as essential to the non-Communist countries of the Far East, as well as of the United States itself. As the Communists continue to improve and expand their military establishment on the mainland, the defensive significance of Taiwan assumes even greater importance than heretofore.

The Government of the Republic of China provides a source of hope for the mainland Chinese and an alternative focal point for their loyalty. It also furnishes a political alternative to Communist influence for some 13 million overseas Chinese residing in strategic parts of southeast Asia. As the Peiping regime intensifies its repression and murder at home, and subversive actions abroad, the maintenance of a China that is free and independent assumes an ever-increasing importance.

During the past year good progress has been made in strengthening the defensive capability of the forces on Taiwan and in stabilizing the economy. Substantial assistance from the United States continues to be necessary, however, since the economic resources of Taiwan are still limited in relation to

the increasing population and the large defense establishment.

At this point, let me interpolate a moment. It should be clear to all of us that the term "defense support" covers programs important to economic development as well as to military objectives. A highway, an airport, a harbor, a bridge, a factory, may in the first instance be vital for the military purposes, but its construction in most instances also contributes a much-needed economic item. Furthermore, as in Taiwan, the necessity for capital development to support military requirements goes hand in hand with an important objective we all have very much in mind—to reduce the burden on the United States taxpayer. As the economy of a country strengthens, it is self-evident that it can do more for itself and the need for grant aid correspondingly declines.

#### SITUATION IN JAPAN

Turning to Japan.—While much remains to be done, during the past 2 years Japan's self-defense forces have grown in size and have obtained useful training. The ground forces, numbering 150,000, are regarded as adequate for the maintenance of internal security, but are not yet either quantitatively or qualitatively adequate for the defense of Japan. The Japanese Government, strengthened by the merger of the two conservative parties last fall, has under study specific plans which would improve the country's ability to defend itself unaided. These plans have not yet been approved. The assistance for Japan contemplated under the mutual security program will continue the help given heretofore in the organization, training, and equipping of Japan's self-defense forces. Japan's economic recovery and its growing self-defense capabilities have already made it an asset to the free world. Further advance and development should enable Japan to assume a greater share of her own defense responsibilities and will permit redeployment of certain American forces presently stationed in Japan.

#### SITUATION IN THE PHILIPPINES

We regard the Philippine Republic as an increasingly important partner in the collective defense arrangements in the Pacific area. The internal threat of armed communism has been generally overcome, thus making it possible for President Magsaysay to proceed with his plans for the economic development of his country. Through continued United States-aid programs we are assisting Philippine efforts to strengthen the main weaknesses of the economy—the rate of industrial development and backward rural conditions. We are also providing help to improve the defensive capabilities of the armed forces.

#### SITUATION IN CAMBODIA

Cambodia has made good progress in dealing with elements inside the country which had been a threat to internal stability. Our aid is assisting Cambodia to strengthen its armed forces in accordance with the expressed desire of the Cambodians to defend the independence of their country, and to build up an effective internal security force to thwart subversion. Our program is assisting in strengthening the civilian economy by improving inland waterways, irrigation, and land reclamation, and constructing a highway from the capital city to a port on the Cambodian coast.

#### OBJECTIVES OF THE PROGRAM

Regionally, in the Far East, the mutual security program for fiscal year 1957 seeks to advance the objectives of the network of mutual defense treaties that has been created in the Pacific area. The program provides equipment, training, and economic support essential for the military and police forces, as well as aid for economic development purposes. Our mutual defense treaties are designed to deter the aggressor and to give greater assurances and confidence to the participating governments. Those arrangements are making a real contribution to the security of the area and to the hopes and aspirations of Asian people generally. This was deeply impressed on all of us who accompanied Secretary Dulles to the Karachi meeting of the SEATO Council of Ministers. After a most thorough review of the activities carried forward during the first year under SEATO—a year devoted necessarily to preparatory measures—it was apparent on all sides that a high sense of optimism, based on solid achievements, prevails among the treaty members.

At that meeting, action was taken to provide for a stronger central SEATO organization in Bangkok. The Council of Ministers authorized establishment of a permanent working group, a full-time executive secretariat, a research service center, and an expanded public relations and cultural relations office, and the appointment of an economic officer. The organization costs of this enlargement of the SEATO headquarters are to be met from a common budget. We intend to draft appropriate legislation to cover our expenses of participation and the United States contributions to support the SEATO headquarters as soon as the details can be determined, and we hope to be able to introduce such legislation next year. In the meantime, the small financial contributions we are called upon to make will be supplied from the State Department budget.

#### BENEFITS DERIVED FROM THE PROGRAM

We can anticipate that during the months ahead many of the free people of Asia, especially those in the newly independent countries, will receive more and more enticements from the Soviets masquerading as their bounteous benefactor. The Soviets will hold themselves out as ready, willing, and able to solve all their problems with the Soviet brand of military, economic, and technical assistance advertised as having no strings attached and offered on terms of easy credit. We propose to meet this challenge by continuing our own constructive aid programs in the Far East on the same sound principles that have been the foundation for those programs in the past. While not departing from the main course we have charted, we will be better equipped to help the free countries of Asia deal with this new Soviet drive, as well as with other situations that may well develop, if the requested authority for increased flexibility can be written into the legislation.

On the whole, I believe we can all derive genuine satisfaction from the collective strength that the free natious of Asia have been able, with our help to

achieve. The job is by no means finished, however; nor have the threats to security lessened. In our own interest, as well as in theirs, we must continue our help to them at a rate and in a manner adequate to the needs of the developing situation.

The program which you have before you represents the best judgment of the executive branch as to how to meet successfully this new combination of effort by the Communists. The military and economic programs are so closely related that it is only by receiving the authority and the funds for both purposes that we can proceed effectively to meet this new situation. I wish to emphasize the interdependency of the economic and military aid and to point out our belief that neither could be reduced without creating an imbalance which would seriously impair our capability.

In the judgment of the Department of State, the requests which will be presented by Dr. Moyer and Mr. McGuire for economic and military assistance in the

Far East, respectively, are completely justified.

In all sincerity and with deep conviction, I request your approval and your support of this mutual security program.

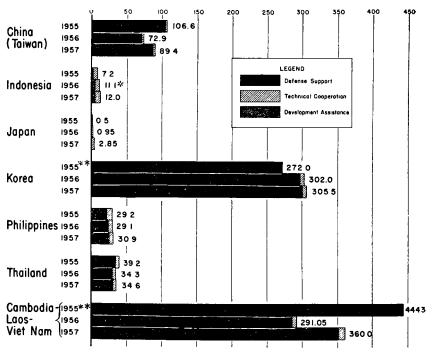
# FAR EAST MUTUAL SECURITY PROGRAMS

(Excluding Military Assistance)

# FISCAL YEARS 1955 - 1956 - 1957

(\$ Millions)

	GRAND TOTAL	DEFENSE SUPPORT	DEVELOPMENT ASSISTANCE	TECHNICAL COOPERATION	OTHER	ADJUSTED TOTAL
1955 1956	902.5 742 35*	876 4 704.25	1.5 4.1*	21.1 34.0	3.5	820 3 824.55
1957	835 25	792.0	4.0	3925	- {	835 25



<sup>\*</sup>Including \$4.1 million development assistance for Indonesia financed from President's Fund for Asian Economic Development.

\*\*Technical cooperation-type activities integrated with defense support.

# UNITED STATES POLICY IN THE FAR EAST

Mr. Robertson. Dr. Moyer, ICA Regional Director for the Far East, and Mr. McGuire, the Deputy Assistant Secretary of Defense, will present the economic and the military programs respectively. I want to talk about the policy considerations which, in our judgment, make these economic and military programs essential at this time.

The Chairman. We will be very glad to hear you.

Mr. Robertson. The question is often asked, what is our policy in

the Far East? Well, it can be stated very simply.

It is to help the free countries of Asia remain free, and to curb the power and prevent the expansion of international communism.

Our mutual defense treaties and all of our economic and military

programs are dedicated solely to this end.

The threat of international communism in the Far East is still serious, although there are some plus signs—enough plus signs, in my opinion, to make us know that we are on the right track.

Armed aggression has been held in check for over 2 years and there are millions of Asians, as well as the people of this country, who have

enjoyed a measure of peace.

This fact, and the fact that there has been a radical change in Soviet tactics, is reassuring evidence of the effectiveness of our policies. shining example of the encouragement I think we are justified in feeling, is illustrated by what is happening in Vietnam.

#### SITUATION IN VIETNAM

A year ago when we presented this program to the Congress, the problems of that Government seemed well nigh overwhelming. In addition to the military and subversive threat from the Vietminh in the north, the country was rent with internal strife. There were three politicoreligious sects with armies of their own, which were challenging the authority of the Government.

The Government was swamped with some 800,000 refugees, who had fled down from the north and had to be absorbed into the popula-

tion.

I think we can take deep satisfaction in the remarkable recovery which has been made in the past year. Today there is firmly entrenched national government with a democratically elected national assembly now meeting to ratify a national constitution.

The sect opposition has been almost completely liquidated. ternal-security forces are being strengthened, trained, and equipped.

Some 600,000 refugees are being resettled upon productive lands. President Diem's leadership has been dedicated, determined, courageous, resourceful. But, even so, this remarkable improvement could not have taken place without the help that was supplied by the program which you gentlemen approved last year.

As I said before, I think we can take the deepest satisfaction that this struggling nation of some 12 million has been saved from Communist enslavement, not to mention the very serious threat that would have been posed to the free world had this country been taken over by the Communists.

While there are plus signs and encouraging signs such as I have just mentioned, I hasten to emphasize that the situation is still one in

which we can afford no complacency.

A serious threat to the independence of these free Asian nations and a serious threat to the security of the United States, in my opinion, still exists, and this is no time for us to be tearing down our protective fences.

# COMMUNIST THREAT IN KOREA

Let's take a quick look at the trouble spots. Let's start with Korea, where we have our largest program. The Chinese Communists still occupy North Korea. They have in North Korea an army of some 350,000 of their own troops, which, together with the North Korean troops which they have trained, gives them an army of some 700,000 immediately north of the 38th parallel.

In flagrant violation of the armistice agreement, they have moved in some 450 modern airplanes, 250 of which are jets, and they have brought in other combat equipment prohibited by the armistice agreement, which greatly increases their striking power. No one can say that a serious Communist threat does not still exist in Korea.

# COMMUNIST THREAT IN TAIWAN STRAITS

Opposite Taiwan, the Chinese Communists are busily building up their military strength. Ten airfields to accommodate jet planes are being constructed between Shanghai and Canton. Their gun positions are being greatly multiplied. They are building a military railroad down into the port of Amoy.

There is no economic justification of any kind for the railroad. It is a military railroad, pure and simple. And Chou En-lai is repeatedly asserting that there are two ways to liberate Taiwan: One for us to get out and give it to him peacefully; the other, if we don't get out,

he will take it forcibly.

No one, I submit, can say that a serious Communist threat does not continue in the Taiwan Straits.

#### COMMUNIST THREAT IN VIETNAM

In Vietnam, the Korean story is being repeated all over again. In the north, the Vietminh, flouting the agreements they signed at Geneva in 1954, have approximately doubled the effective strength of their fighting forces.

They have increased the firepower of their artillery some sixfold, and have moved in other combat equipment prohibited by the cease-

fire agreement.

The equipment and the training have been furnished by the Chinese Communists.

Now, let no one say that the Communist threat has ceased to exist in Vietnam.

# COMMUNIST THREAT IN LAOS

In Laos, again in callous violation of the Geneva accords of 1954, the Pathet Lao, which is controlled by the Vietminh, which, in turn, is controlled by the Communist bloc, is still occupying the two northern Provinces of Laos, Phong Saly and Sam Neva.

At the Geneva Conference, the authority of the Royal Government over this territory was clearly recognized. But these Communist troops, Communist-controlled troops, continue to defy the Royal Government, refuse to let it take over sovereignty. It is perfectly obvious that the Communists are bent upon bringing about a de facto division of Laos such as has been achieved in Vietnam.

Senator Green. Mr. Chairman, are we going to listen to the whole

statement first before asking questions?

The CHAIRMAN. Mr. Robertson, is it agreeable to you to have ques-

tions asked as you go along?

Mr. Robertson. Of course, I want to do what you gentlemen prefer. Personally, I should prefer to finish my statement first, unless there is some objection to that procedure.

The CHAIRMAN. All right; you may do so. We will have to with-

hold our questions.

Mr. Robertson. Again, I repeat no one can say that the Communist

threat is not still very serious in Laos.

In other countries of the region, the Communist tactics are more insidious, but they are nonetheless real.

# POTENTIAL COMMUNIST THREAT TO THAILAND

Thailand, as you know, is a country strongly oriented to the West; probably as much so as any country in Asia. The Government there recognizes the potential threat to Thailand that is posed by the continued occupation of these two northern Provinces of Laos by the Communists; and they also see beyond these Provinces, to Red China, where the Communists have set up the Great Thai State, using a former Premier of Thailand, a man by the name of Pridi, to call upon the people of the Thai race in Thailand, Laos, and Burma to overthrow their Governments and set up a Communist regime.

Also, in Thailand very recently, the Chinese Communists have been employing the terror tactics that they used so successfully in Singa-

pore to intimidate the local Chinese colony.

You gentlemen probably noticed in the New York Times the other day a story out of Bangkok about the murder of a Chinese musician who had come over to Bangkok from Taiwan, a man by the name of Professor Chu. Professor Chu was a noted musician in Asia and had been a guest conductor of the Manila Orchestra. In April he came to Bangkok and was conducting musical classes with great success.

About 2 weeks ago, he was found dead, the building in which he was living was mysteriously burned, under conditions which point almost

certainly to murder and arson.

Immediately following this event, the anti-Communist president of the Chinese Chamber of Commerce suddenly resigned, giving some excuse, but the two previous anti-Communist presidents of this chamber of commerce had been murdered. As I say, the Communists are using every tactic of terror and intimidation, to swing the Chinese element in Thailand into the Peiping orbit away from the national government, to which most of them lean.

# COMMUNIST PRESSURES ON JAPAN

As you gentlemen well know, Japan is one of the chief objectives of Communist policy. It has an industrial capacity of approximately 50 percent of that of the Soviet Union, and would be a powerhouse in the international Communist apparatus in Asia.

In Japan, the Communist Party is a legal entity, with a following

close to 1 million.

Now, while the Japanese Communists give lipservice to the renouncement of violence, the party maintains an underground organization with a para-military arm which they have used for espionage, sabotage, and the instigation of mob violence.

There has also been serious Communist infiltration into the labor

unions, notably the teachers union.

The Japanese Government is friendly to the West, but it is under the greatest pressures, by the Russians, the Chinese Communists, and many of their own people, to establish closer relations with the Communist bloc.

In Japan, except for a small technical cooperation program, our assistance there is entirely military. I think we can all agree that we cannot afford to relax in our concern about Japan.

# ADVANCES IN SINGAPORE OF COMMUNIST ELEMENTS

In Singapore, the Communist elements have made disturbing advances in the field of education and labor, with tactics of violence sim-

ilar to what I have described in Thailand.

They had goon squads that went into the schools—and the schools, incidentally, are about 85 percent Chinese. They murdered teachers, they beat up and murdered students who resisted them, and they have at last succeeded in replacing practically all of the teachers in the schools of Singapore with teachers who were trained in Communist China.

# SITUATION IN MALAYA

In the Federation of Malaya, the British are still fighting their long fight against guerrilla terrorism.

# COMMUNIST INTEREST IN INDONESIA

In Indonesia, in the recent elections the Communist Party emerged as the fourth largest party, polling about 16 percent of the vote.

Even so, a coalition government was formed of the major non-

Communist parties, without Communist participation.

Indonesia has a population of approximately 80 millions of people. They have large undeveloped natural resources. It is greatly coveted by the Communists as one of the prizes of Southeast Asia.

You gentlemen probably heard President Sukarno speak here on his recent visit. He emphasized his dedication to keeping his coun-

try free.

From our conversations with various government officials of Indonesia, we feel that they are in fact dedicated to keeping their country free.

They need help, and there are only two places for them to get it. One is the free world, which means the United States, and the other is the Communist world.

I submit that we should not let Indonesia go by default to the

Communists.

# COMMUNIST OVERTURES TO BURMA

Burma is a country, a neutral country, whose economy is inextricably tied up with the market for rice. Rice exports supply approximately 76 percent of Burma's foreign exchange. Rice revenues provide about 50 percent of all Government revenues.

Burma is burdened with a large rice surplus, and the increasing competition which Burma is finding in the markets of the world is

forcing her to accept markets wherever she can find them.

The Soviet bloc has been very quick to capitalize on this situation,

and they are exploiting it with great cleverness.

For this reason, Burma has been one of the neutrals singled out for special courtship by Mr. Bulganin and Mr. Khrushchev with offers of technicians, agricultural and industrial equipment, school and cultural exchanges, all in exchange for rice.

During a recent visit to Rangoon, Mr. Mikoyan, one of the top members of the Communist Party in Russia, initialed an agreement to supply technical services, capital, and other goods, in exchange for

400,000 tons of rice annually for the next 4 years.

#### AGGRESSIVE DESIGNS OF COMMUNISTS IN ASIA

Finally, in addition to the lavish offers of economic aid and technical assistance, the Communists are exerting internal pressures through subversion, economic and psychological warfare upon every country in Asia.

When the Communists were prevented from achieving their goals of overt aggression in Korea and Vietnam, they did not abandon their

aggressive designs, but simply adopted a new tactic.

The building up of military strength continues, but it continues be-

hind a facade of peaceful talk and economic penetration.

The international Communists are busily pursuing their objectives with a dedication for their cause that I wish we could match for our And if the countries of this vast area are to preserve their independence and escape the enslavement which has befallen Eastern Europe, I know of no substitute for free world help, and the kind of free world help which only the United States can give.

Gentlemen, I welcome your questions.

The CHAIRMAN. Senator Green, do you have any questions? Senator Green. Yes; I have a couple of questions I would like to

ask. They are rather fundamental ones.

# COMMUNIST VIOLATIONS OF INTERNATIONAL AGREEMENTS, INCLUDING KOREAN ARMISTICE AGREEMENT

In the first place, we complain from time to time about the way the Communists fail to keep their agreements, under treaty or otherwise. What have we learned by this series of breaches of good faith on Have we given up the idea of making agreements with their part? them?

Mr. Robertson. Senator Green, you probably saw the other day that President Truman said he was still against the Russians; they

had broken 32 agreements with him.

They do continue to violate their agreements. The alternative to signing the armistice agreement in Korea was to continue the war, and while the Communists have violated the armistice agreement and increased their military strength in violation of its terms, we still have had peace in Korea—a cease-fire in Korea—for 3 years.

Now, it is this very situation, the fact that they do not negotiate in good faith, that, in my opinion, makes it necessary that we do not let down our guard. There is no way, in my opinion, that we can let down our guard in Korea, where they have 700,000 troops firmly entrenched north of the 38th parallel, except, to our peril, in allowing them to take over all of Korea, which is a first step toward Japan.

The same thing was true in Vietnam. The alternative to the ceasefire agreement was to continue the war. The alternatives are not the black and white but the grays, between which you have to choose.

Senator Green. I know the constant breaches are drawn to our attention, but what can we do about it; and what are we doing about it?

Mr. Robertson. Well, what we are doing about them is to take advantage of whatever benefits can be obtained in making an agreement with them, and then staying on our guard to protect ourselves.

Senator Green. But what is the use in making agreements that it is believed they will not keep? Why are we tying our own hands and

leaving them free?

Mr. Robertson. Well, that was a decision we had to make when we decided we wanted to stop the fighting in Korea; and that was made at the highest policy level.

at the highest policy level.

Senator Green. Well, I want to find out what lessons we have learned by our experience in Korea as to determining our future

action.

Mr. Robertson. It seems to me what we have learned is that the Communists are still trying to carry out their objective of communizing Asia. I think we are confirmed in our conviction that Lenin's plan for the domination of the world is as alive today as when he first plotted it many years ago when he was the leader of a little cell with no power. Having taken Eastern Europe according to plan, as soon as the Communists were entrenched in China, they took over Tibet and invaded North Korea.

They were stopped from taking over North Korea, and possibly

Japan, only by the opposition of the United Nations forces.

Now, it seems to me that the fact that they do make agreements and then violate them shows that they have not changed their objectives, only their tactics; and that they continue to have the same ultimate objective.

It seems to me the lesson we must learn is just what we are talking about this morning: that we must continue to provide the effective strength needed to curb their power and prevent their expansion.

Senator Green. But in Korea isn't it right that they were stopped

only by military strength?

Mr. Robertson. Yes, sir; only stopped by military strength.

Senator Green. Well, is that the conclusion that we have reached as to the rest of the world, that the only thing we can rely on is military

strength?

Mr. Robertson. No, sir; I don't think it is the only thing we can rely on. But I think we must rely on military power to deter overt aggression. When they get blocked in overt aggression, then they turn to covert aggression.

# OFFSETTING THE SPREAD OF COMMUNISM

Senator Green. Another phase of the same question is this: In these different countries is found at times—and I think you alluded to it in your statement—an increase in communism among the people. Even in countries where the Communist Party is legalized, their representatives in the government increase in numbers, or there is an increase in the number of people who are voting Communist.

What are we doing to offset that? We cannot meet that by military

force.

Mr. Robertson. I agree; and that is where our technical assistance programs and our economic programs are so necessary. That is why

they are, in our opinion, so valuable.

Most of these countries in Asia, as you well know, sir, are suffering from every conceivable kind of instability, social instability, political instability, and economic instability. The purpose of these programs is to try to stabilize these situations, to make the people less vulnerable to the lure of Communist propaganda.

Senator Green. Well, how successful do you think we have been

along those lines?

Mr. ROBERTSON. As I tried to point out in my opening statement, I think we can find a good many plus signs. I cited, as a shining example, the situation in Vietnam, which a year ago seemed almost hopeless. I think we will all admit that it was a situation which was saved—militarily, politically, and economically—by the help which the United States has given.

Senator Green. I think that it is not just a matter of the appropriation of money. We have to know for what purpose the money is being spent; whether or not we are converting these Communists to some other creed. They seem to be making progress with the spread

of their creed, are they not?

Mr. Robertson. They have made great progress since they took over Russia in 1917. They have enslaved some 15, 16, or 17 countries and some 700 millions of people. And if it continues without opposition—

Senator Green. What are the principal methods which you would advise us to use in the expenditure of the funds that are requested for

the future?

Mr. ROBERTSON. This program which is being submitted to you gentlemen this morning is, in our judgment, the method which we should pursue.

Senator Green. That is all. Thank you, Mr. Chairman.

# OFFER OF RUSSIA TO AID INDIAN OIL EXPLORATION

The CHAIRMAN. Did you notice, Mr. Robertson, the statement by one of the members of the press last night or this morning that Russia was offering two derricks with complete crews for purposes of oil exploration in India?

Mr. Robertson. I did not see that sir, but I am not surprised.

The CHAIRMAN. Yes, sir. Mr. Rorertson. It is in line with their general policy throughout Asia.

#### MILITARY FORCES IN THE FAR EAST

The CHAIRMAN. We do not have any military force at any point in the Far East, outside of 1 or 2 places—Formosa and perhaps South Korea-with which we could meet the present Communist military buildup in that area of the world, do we?

Mr. Robertson. We have in Korea the largest anti-Communist

army in Asia.

The Chairman. But they have an army of about 700,000 opposing.

Mr. Robertson. Immediately opposed to them. The CHAIRMAN. And, you told us, well equipped.

Mr. ROBERTSON. That is right, sir.
The CHAIRMAN. And they have, or are building, airstrips or airfields adequate for jet fighters in various parts of the world?

Mr. Robertson. Yes, sir.

In Taiwan, we have a strong Chinese military force. Together with the Koreans, this is an army which is, in our opinion—I do not want to be presumptious in speaking for the military, and I don't want to get into that field-certainly a tremendous factor in the balance of power, military power, in Asia. Without the armies in those countries, confronted as they are by the military threat of the Communists, we should be in a bad way, indeed.

The CHAIRMAN. Senator Wiley, have you any questions?

# FUNDS REQUESTED FOR FAR EAST

Senator Wiley. What is the total amount that is requested for military aid in the Far East?

Mr. McGuire. One billion, twenty-six thousand.

Senator Smith. That apparently does not include the defense support figure of \$792 million, which is in addition to that.

Mr. McGuire. I was answering the Senator's question only in the

light of the military aspects of it.

Senator WILEY. And how much other aid is being requested?

Mr. Moyer. \$835,250,000. That is for economic-

Senator WILEY. Do those totals represent an increase over last year's request?

Mr. Moyer. It is an increase in new funds. In terms of availabilities, however, the amount requested for fiscal year 1957 is approximately the same as the amounts in each of the two preceding years.

In fiscal year 1955, the original estimate for one country was subsequently found to be larger than necessary, so that some of the funds made available for that year were applied to requirements in fiscal vear 1956.

When you make that shift, the amount proposed for 1957 is very

close to the amounts in the two preceding years.

Senator WILEY. Did I see something in the paper to the effect that the House Foreign Affairs Committee had recommended a cut in these amounts?

Mr. McGuire. I don't believe the House has acted on the military program yet, sir.

Senator Wiley. What did they act on?

Mr. FITZGERALD. The House acted, Senator Wiley, on the Asian development fund. It combined the Asian development fund, the balance remaining unobligated in the Asian development fund, with a proposed Middle East development fund.

Senator Wiley. And they have not recommended a cut in the overall

figure ?

Mr. FITZGERALD. Well, the committee has not reported out yet, Senator, so we can't be sure.

Senator WILEY. I see.

The CHAIRMAN. The Foreign Affairs Committee has not reported

the bill. They hope to have their report ready next week.

Mr. Robertson. Mr. Chairman, as I stated at the outset, I wanted to discuss the policy considerations, and then the economic program and the military program would be submitted by Mr. Moyer for ICA and Deputy Assistant Secretary Perkins McGuire for Defense. They have two short statements they would like to present. I think, gentlemen, some of your questions may already be answered in the statements which they will present.

With your permission, we should like for them to present their

statements.

The CHAIRMAN. We will be glad to hear them right now.

Mr. Moyer. Mr. Chairman and members of the committee:

Like Secretary Robertson, I have a prepared statement. If you concur, I would suggest it be entered in the record, and I also speak informally on just a few of the highlights.

The Chairman. Yes, sir; you may put your entire statement in now, and address yourself to the highlights.

Mr. Moyer. Thank you, sir.

The statement, I believe, has been circulated.

(Mr. Moyer's prepared statement is as follows:)

STATEMENT BY RAYMOND T. MOYER, DIRECTOR, OFFICE OF FAR EASTERN OPERATIONS. INTERNATIONAL COOPERATION ADMINISTRATION

#### PROPOSED LEVEL OF AID FOR FISCAL YEAR 1957

Nine countries of the Far East, currently receiving nonmilitary forms of aid, are included in the proposals for such aid in fiscal year 1957. They are: Cambodia, China (Taiwan), Indonesia, Japan, Korea, Laos, the Philippines, Thailand and Vietnam.

The total amount recommended for these countries in fiscal year 1957 is \$835,-250,000, exclusive of military assistance. This figure also is exclusive of assistance known in prior years as direct forces support, which this year is presented by the Department of Defense under military assistance.

The \$835,250,000 recommended for fiscal year 1957 includes: For defense support, \$792 million; for development assistance, \$4 million; and for technical cooperation, \$39,250,000. Defense support assistance is recommended for 7 of the 9 Far Eastern countries in the program; development assistance is recommended for 1; and technical cooperation is recommended for all 9.

Examining the figures on a comparable basis for the 3 fiscal years 1955, 1956. and 1957, the amount proposed for the fiscal year 1957 would appear to be about \$93 million more than the figure for fiscal year 1956, and approximately \$67 million less than for fiscal year 1955. The facts are, however, that a substantial sum, originally programed for fiscal year 1955, was subsequently found not to be needed for that year and was therefore available for fiscal year 1956 requirements. When the aid figures for fiscal years 1955 and 1956 are adjusted to reflect that change, there is little difference between the figure proposed for fiscal year 1957 and the amounts actually made available for use in each of the 2 years preceding.

## PROBLEMS TOWARD WHICH THE PROGRAMS ARE DIRECTED

Before explaining how these funds are planned to be used, I would like briefly to mention several basic considerations that have been taken into account in

formulating the programs for which they are requested.

Broadly speaking, programs of economic and technical assistance in the Far East are built around an effort to help the free countries of this area solve those major problems, largely economic in nature, for which they will have to find solutions if they are to have the military and economic strength needed to maintain their security, preserve their independence, and develop free institutions. Summarized, these problems are:

1. Military forces larger than can be supported out of their own resources. 2. Communist-supported efforts to fan discontent, weaken governments, and

gain control from within.

3. A shortage of the resources necessary to achieve the basic development and improved living conditions essential to their success as independent nations.

The need for those forms of assistance which bear directly on the security of these countries is generally well understood and does not require further elaboration here. In the situation currently prevailing in Asia, however, the dominant preoccupation of the majority of its countries, understandably, is with problems they are encountering in efforts to succeed with their independence, and to achieve a position of dignity among the nations and a better living for their people. Asian countries are moving; the main question is, in what direction? The direction which Asian countries take, in the critical years just ahead, will be determined to a very considerable degree by the course they choose in their efforts to achieve these aspirations. Under such circumstances, military solutions alone

To succeed in their efforts to develop nonmilitary solutions, however, these countries require external economic and technical assistance. Economic growth in most of them is now proceeding too slowly to keep pace with the need for employment and improved living conditions for an expanding population, and with increasing military costs. Present progress is not adequate to provide convincing evidence to the peoples of free Asia that the fruits of a system based on freedom and justice are more attractive than those to be gained under a Communist system. By contrast, it is constantly being brought to their attention that Communist China and the U. S. S. R., starting as underdeveloped countries, have made rapid progress in development.

The proposed aid, therefore, in addition to supplying essential support to military forces, is aimed at helping these nations to make such progress with fundamental forms of development that a sense of hope for the future is possible, and at helping them produce tangible evidence of progress without succumbing to pressures to resort to radical measures.

#### PLANNED USES OF THE PROPOSED FISCAL YEAR 1957 FUNDS

How is the money appropriated by the Congress put to work in helping to solve

these problems?

In the first instance, the money appropriated is spent to buy goods and services which make available four general types of resources for use in these programs. These resources are: (1) salable commodities; (2) local currency of the country, derived from the sale of these commodities; (3) imported supplies and equipment

for projects; and (4) technical services and training.

Of the total of \$835,250,000 proposed for these programs, about \$600 million will be used largely to purchase salable commodities. It is expected that about \$110 million of this amount will be spent for surplus agricultural commodities procured through the Commodity Credit Corporation, which is then reimbursed from these funds. Fertilizer for farms and petroleum products are other important items. Nearly two-thirds of the \$600 million will be used for imports of raw materials, semifinished products, and various types of machinery and vehicles, necessary, for the most part, to maintain the functioning of essential

economic activities, and which are sold internally for local currency.

The balance of the \$835,250,000, or about \$235 million, is required to meet the dollar costs of supplies, equipment, and technical services that are furnished for projects in agriculture, transportation, industry, education, health, and public administration receiving assistance in these programs. The portion of this sum represented by the technical cooperation request (\$39.25 million) will be used in this (as in other regions) to assist in the exchange of knowledge, experience, techniques, and skills by providing the host country with technicians from this and other countries and by bringing foreign nationals to the United States or elsewhere for training.

Of the \$835,250,000 total proposed for the Far East, about 45 percent, in the form of local currency obtained largely by the sale of imported commodities, will be used to supplement budgetary resources required to support the military effort. The preponderant portion of the local currency funds thus provided will be used for the normal internal costs of armed forces where they are larger than can be supported from a country's own resources. A small portion of these local-currency funds will be used to help meet the internal costs of certain military

construction projects.

About 55 percent of the total funds requested will finance various projects directly affecting basic development. These projects include those which (a) serve both a military and economic purpose, such as highways, power, and telecommunications; (b) contribute to the development of natural resources and to the increase and diversification of agricultural and industrial production; and (c) strengthen basic government services such as in agriculture, health, and education.

In some countries the program includes, where requested by the recipient nation, assistance in developing and strengthening civil police forces. Such assistance is normally directed toward improving the organization, administration, and technical competence of such forces through advice, training, and demonstration provided under the technical cooperation program. In some countries it also includes, as part of the defense support or development assistance program, the furnishing of police equipment and material beyond a demonstration level. Aid of this type can be particularly useful in countries where a young government is faced with the problem of developing, along with all the other key governmental services, an effective, democratic instrument for the maintenance of law and order.

Assistance given to projects in these various fields of activity is both (1) in dollars and (2) in local currency derived from the sale of imported commodities, in roughly equal amounts. The dollars are required to pay for supplies, equipment, and personnel that have to be imported. The local currency provided helps to meet those internal project costs which the countries themselves are unable to finance.

In summary, then, how do the programs of these several kinds actually help to solve the three major problems toward which they are directed? Immediately, they help to make possible the achievement of five specific results:

(a) Adequate internal support of the military effort.

(b) The control of inflation.

(c) Political and social stability.

(d) Increased capacity of the country itself to meet the costs of its security and development efforts.

(e) Reasonable progress with basic development.

In most instances, funds spent to achieve one of these results also help to achieve one or more others. Thus, dollars spent for salable commodities, in addition to making local currency available for direct support to military and other efforts, help keep down inflation and contribute to political and social stability. Dollars spent for development projects provide employment and thus contribute to political stability. They also help to increase the country's capacity for self-support, to attain the economic strength necessary to preserve independence, and to achieve better living conditions. The total effect is to provide substantial and effective assistance, helping countries of this region to solve those three major problems that need to be solved if objectives which they and we share are to be achieved.

## PROGRAMS BY COUNTRIES

Now, turning to the individual country programs (other than military assistance), the chart appended to this statement shows in graphic form how the proposed funds are distributed. Out of the total of \$835,250,000 proposed for fiscal year 1957, \$754,900,000, or about 90 percent, is for countries around the periphery of Communist China which are supporting large armed forces—Korea, China (Taiwan), Vietnam, Cambodia, and Laos. About 10 percent, or \$80,350,000, is recommended for programs in the remaining countries—Japan, the Philippines, Thailand, and Indonesia. By countries or groups of countries the figures are: Korea, \$305,500,000; China (Taiwan), \$89,400,000; Vietnam, Cambodia and Laos, \$360 million; Japan, \$2,850,000; the Philippines, \$30,900,000; Thailand, \$34,600,000; and Indonesia, \$12 million.

#### REPUBLIC OF KOREA

The specific needs of Korea remain the same as in previous years:

(a) Help in meeting the costs of its large fighting forces.

(b) Recovery from the destruction of war.

(c) Strengthening Government services.(d) Training technical and administrative personnel.

(e) Increasing the Government's capacity to bear a greater share of the

cost of its military and development effort.

Substantial progress in meeting these problems has been made over the past year, as the result of serious efforts by the Republic of Korea to control inflation and of massive United States aid. While the danger of inflation cannot safely be considered past, prices have remained practically stable over the past 6 months. The beneficial effects of rehabilitation are beginning to appear. The formerly severe power shortage is expected to be relieved by mid-1956; the railroad network has been restored and improved. Roads, bridges, port installations, and telecommunications facilities have also been improved. A variety of light industries has been rehabilitated and developed. At the end of calendar year 1955, 87 percent of the number of business units and 60 percent of the number of real-estate units taken over from the Japanese had been disposed of to private interests.

As General Lemnitzer and Mr. Tyler Wood testified, the \$305.5 million requested for fiscal year 1957 is believed to be the minimum required to preserve the gains already made and continue satisfactory progress in meeting Korea's critical problems. Of the \$300 million for defense support, approximately 70 percent is to be spent for salable commodities, with the local currency derived from their sale expected to be divided about equally between the armed forces

and development projects.

Specific development projects to be undertaken with funds requested for fiscal year 1957 provide for improving railways and increasing rolling stock; highway and bridge construction and repair; reconditioning electric power and transmission facilities; minerals development; rehabilitating and developing irrigation facilities, and seed and livestock projects to increase and diversify agricultural output; new and expanded industrial facilities, with the emphasis on small and medium-size plants to produce cement, chemicals, paper, metal, and other basic products; construction materials for housing, schools, and hospitals; and improvement of health and educational facilities.

#### REPUBLIC OF CHINA (TAIWAN)

In Taiwan, the basic problems are similar to those in Korea and substantial progress has been made in coping with their most serious manifestations. Inflation, which seriously threatened the stability of the islands until 1951, has since been held within manageable proportions. Industrial output since 1950 has risen 95 percent, and overall farm production 18 percent; electric power generation has increased 89 percent, and railway freight ton-kilometers 79 percent. Government revenues for 1956 are estimated at more than double those collected in 1952. This increase in revenues, converted into United States dollars at comparable price levels, means that the Republic of China will have available for essential military and other expenditures during the current year somewhere between \$40 million and \$60 million more than it had available for these purposes in 1952, a sum which, to a considerable extent, might otherwise have been obtainable only through United States aid.

The \$86 million proposed for defense support aid during the fiscal year 1957, in addition to continuing substantial support to the armed forces, includes provision for an expansion in the amount for development projects. This somewhat increased emphasis on capital improvement is believed to be necessary to meet production and employment needs of a rapidly growing population. Experience over the past few years has already demonstrated that such capital investment is the best approach to a buildup of Taiwan's capacity for self-support. The alternative is to continue indefinitely supplying the consumption needs of an expanding population through a steadily rising volume of United States-financed imports.

Projects included in the proposed program provide for: (1) expansion of electric power generation and transmission facilities; (2) construction of an East-West highway and reclamation of farmland; (3) railway locomotives and cars needed for military and other transportation; (4) expansion of irrigation systems; and (5) loans to small private industries and establishment of an in-

dustrial productivity center.

The technical cooperation component of the program, for which \$3.4 million is recommended, concentrates on projects in education, health, industry, and the rural program under the Sino-American Joint Commission on Rural Reconstruction (JCRR).

#### CAMBODIA, LAOS, AND VIETNAM

The three countries of Cambodia, Laos, and Vietnam, during the past year, have gone through a period characterized by uncertainties, critical events, and emergencies; but they have made substantial progress in strengthening their independence and their ability to cope successfully with the serious problems confronting them. In this situation, United States programs of economic and technical assistance have concentrated on helping them to: provide adequate support to their military forces; establish the banks and other financial institutions required for operating financially as independent nations; recover from the damage and dislocations due to war and the results of the Geneva settlement: strengthen essential government services, including the training of personnel required; and lay foundations for longer-range development. This aid has played a vital part in the success which the government and people of these countries have had in passing successfully through a difficult period, and in bringing into being the more hopeful situation that now prevails.

The amount (other than military assistance) proposed for these 3 countries in fiscal year 1957 is \$360 million, \$351 million for defense support and \$9 million for technical cooperation. This \$360 million is just about half the amount provided through France for comparable purposes in fiscal year 1954, including support to the French Expeditionary Corps; and it is approximately the same as the amounts actually made available for such purposes in the fiscal

years 1955 and 1956.

Approximately 68 percent of the \$351 million proposed for defense support is to continue assistance helping to meet internal costs of the military forces of these countries, to be provided largely through the supply of salable commodities which yield local currencies that then are applied to these purposes. A reduction in the amount required for emergency problems, such as refugees, makes it possible to increase the amount for basic development without increasing the total for nonmilitary purposes. This, and improved internal conditions, make it possible for the emphasis in this segment of our assistance now to move away from wartime and emergency work, and to concentrate more on peacetime economic rehabilitation and basic development.

In Vietnam, emphasis in the assistance proposed for rehabilitation and development is on the restoration and improvement of highways, inland waterways, and irrigation facilities; an extensive agricultural program, including resettlement on abandoned agricultural land, implementation of the government's land reform program, and agricultural credit; the development of primary and vocational education; a program of civic action, to strengthen relationships between the central government and the people; and the improvement of public admin-

istration.

In Cambodia, the proposed program provides for substantial assistance to the improvement of highways and bridges, and for beginnings in other development programs. The most important project, begun in fiscal year 1956 and requiring further funding in fiscal year 1957, is a highway connecting Phnom Penh, the capital city, with a new deep seaport being constructed on the Gulf of Siam.

In Laos, assistance is proposed for an expanded program to restore and improve highways, linking together the major cities now accessible only by air and water. Emphasis also is to be placed on activities affecting the welfare of the people, including projects in the control of endemic diseases, crop and livestock development, and the encouragement of small industry. A field service will be organized to help the Lao Government bring these improvements directly to the people.

#### JAPAN

The \$2.85 million of fiscal year 1957 funds requested for Japan will support the continuation of a technical-cooperation program begun in April 1955. Essentially a productivity program, it is designed to aid Japan in improving industrial production and marketing techniques, thus helping to develop one of the fundamental solutions to its longer range economic problem. United States support to this program is given through a privately organized but Government approved Japan productivity center.

Since 1945, Japan has had a chronic trade deficit, which has been substantially reduced in the past 2 years, but which still is offset by heavy United States special expenditures in Japan. In the face of this fundamental problem, Japan is confronted with the need to: (1) Improve its competitive position, so as to earn sufficient foreign exchange to pay for essential food and raw material imports; and (2) increase revenue and foreign currency assets in order to finance industrial capital expansion, pay reparations and external debts, and meet other

essential Government expenditures.

The request for \$2.85 million—which compares with \$950,000 in 1956—is intended to help enlarge the program of the Japan productivity center so that its services can be made available not only to the larger Japanese industries able to pay a substantial share of the costs, as was done this year, but also to smaller industrialists and labor representatives not able to do so. Some 40 teams for study in the United States and third countries, representing management and labor in important Japanese industries, are contemplated during fiscal year 1957, in such fields as industrial machinery, electric power, heavy chemicals, office management, industrial research, and marketing techniques. Six-week seminars, led by United States specialists, will be held in Japan on such subjects as market research, industrial engineering, cost accounting, and sales promotion. The program also will finance contracts with two universities, to improve basic training in Japan suited to industrial needs, and will include attention to problems of upland agriculture and livestock production.

## THE PHILIPPINES

Programs of economic and technical assistance in the Philippines over the past several years have concentrated on activities in health, education and agriculture, getting benefits directly to the people. These have been supplemented with other efforts directed toward the same purpose, such as improving highways throughout the islands, opening up new land for settlement, and developing irrigation facilities. Substantial assistance also has been given in the training of personnel required by an independent Philippines in handling its manifold responsibilities.

Assistance through projects in this program has given substantial support to the Philippine Government and people in their effort to improve living conditions and build up the economic strength needed to succeed with their independence. In this they have achieved notable success, as seen in the greatly improved internal situation compared with conditions just a few years ago. Assistance

in this program may reasonably claim some share of the credit.

More recently, a limited amount of local currency support to military construction projects was added to the program, and greater emphasis was placed on projects to expand and diversify production, in order to help provide employment and add to the country's basic economic strength. A particularly significant undertaking in this direction is a project to provide credit to Philippine private investors for small and medium-size industries, which will be continued in fiscal year 1957. In this project, surplus agricultural commodities financed with aid funds will be sold for pesos, which the Philippine Government will lend through commercial banks to Philippine private investors establishing small and medium-size industries. Dollars for the purchase of imported equipment they may need will be provided from a line of credit extended by the Export-Import Bank and other sources. Technical assistance to potential investors is supplied

through specialists on the staff of an Industrial Development Center, the industrial advisory unit within the Philippine Government's National Economic Council.

The total assistance to the Philippines recommended for fiscal year 1957 is \$30.9 million. This includes \$7.2 million for the local costs of military construction, and \$10 million for industrial credit, described above. It also includes \$7.8 million for equipment and supplies needed for developmental projects in the fields of agriculture, road improvement, education and health, in support of President Magsaysay's self-help rural program. There is \$5.9 million for technical cooperation. It is expected that the Philippine Government will appropriate entirely out of its own funds the equivalent of \$37 million to help cover the local currency cost of these projects.

#### THAILAND

Assistance to Thailand in these programs was limited to technical cooperation until the fiscal year 1955, when the fall of north Vietnam to the Communists led the Thai Government to expand its military and civil defense efforts. At that time defense support assistance was added to this program to help the Thai Government cope with the new problems that were then created. Particular attention was paid, in this expanded program, to projects improving the highway system, linking more adequately the major centers of Thailand. Additional assistance also was given for strengthening agricultural, health, and educational programs, through training essential personnel and expanding activities bringing benefits directly to the people.

The \$30 million in defense support funds proposed for fiscal year 1957 will provide primarily for continued assistance to highway development and to certain other projects, such as northeast tank irrigation and ground-water development. Two new projects of consequence are the development of certain basic power facilities and a modest industrial development loan program, to serve as a catalyst for Thai private industrial development. Of the defense support total of \$30 million, more than half is to be used for commodities which, when sold, will provide local currency for the support of these and similar projects to which the United States is also furnishing dollar aid.

The fiscal year 1957 technical cooperation program, for which \$4.6 million is recommended, will focus on activities helping to (a) improve public administration, especially fiscal management; (b) diversify the Thai economy; (c) improve basic governmental services to the people; and (d) increase intercountry cooperation within mainland southeast Asia.

#### INDONESIA

Assistance to Indonesia over the past several years has been mainly technical cooperation in nature, helping that large and newly independent country to train the personnel it needs to carry out its new responsibilities, and to make a beginning in economic programs to meet problems with which it is confronted. Late in fiscal year 1955, a modest amount of development aid was added to provide supplies and equipment for two important projects—malaria control and civil police administration. The police program, by improving internal security conditions, is contributing to stability and increased economic activity. The malaria control program, now in its third year, is expected ultimately to help rid 30 million Indonesians of this debilitating disease. The training aspects of these projects are provided for in the technical cooperation program.

Other technical cooperation projects help to: (a) meet Indonesia's great need for technicians and managers, through training and education in agriculture, engineering and medicine; (b) increase productivity through agricultural extension, industrial training, and mining and engineering advisory services; and (c) resettle people in Sumatra from overpopulated areas in Java, by assisting in land clearance.

The \$12 million currently recommended for assistance in fiscal year 1957 contains \$8 million for technical cooperation and an additional \$4 million in development assistance. These funds will be used in support of activities such as the above, able to make a significant contribution to the solution of some of Indonesia's fundamental problems.

# AMOUNTS REQUESTED FOR ECONOMIC AND TECHNICAL ASSISTANCE FOR FAR EAST

Mr. Moyer. The total amount proposed in economic and technical assistance for the Far East in fiscal year 1957 is, as I have stated,

\$835,250,000. This is made up of:

Defense support, \$792 million, which we propose for 7 of the 9 countries receiving assistance; \$4 million in development assistance, which we propose for one country; and \$39,250,000 in technical cooperation, which we propose for a program in each of the 9 countries.

I would like first to point out where this money is intended to go. Here is a chart, and I believe small reproductions have been made which are now being distributed, which graphically tell that story.

See p. 812 for chart.

You will notice three long bars. Each of the bars, I might mention, is made up of 3 years, 1955, 1956, and 1957, but cutting across the chart you will see these blocks of red where, quite obviously, the great majority of the money is intended to go.

The top one is China—Taiwan or Formosa. The second one, the second long bar, is Korea. The third one is a combination of Cam-

bodia, Laos, and Vietnam.

When you take those five countries together, they account for approximately 90 percent of the assistance which we are proposing in

these programs.

Then there are the smaller bars for the countries of Indonesia, Japan, the Philippines, and Thailand, and they together account for approximately 10 percent of the funds which we are proposing.

For the countries individually——

Senator Fulbright. Is that aid to be distributed in proportions simi-

lar to the populations in that area?

Mr. Moyer. No, sir. The proposals are not based on population, but they are based on the overall policy objectives in the country, on the major problems that we agree with the country to work on and try to solve, and finally on what we think is needed in outside aid to help meet those problems.

Individually, by country, as you will notice also on this chart, we are proposing for 1957 for China, or Formosa, \$89.4 million; Indonesia, \$12 million; Japan \$2,850,000; Korea, \$305,500,000; the Philippines, \$30.9 million; Thailand, \$34.6 million; and the three coun-

tries of Cambodia, Laos and Viet-Nam, \$360 million.

## PROBLEMS FACED BY FREE COUNTRIES OF FAR EAST

Now, I would like to turn from that, briefly to sketch the broad purposes for which these funds are intended to be used, and I would like to point out first that they are directed toward the solution of the major problems of the free countries of this area, which we think have to be solved if they are to remain free.

These three problems are—they are so familiar that I don't need to more than mention them—the first, military forces larger than the

countries can support out of their own resources.

Second, Communist-supported efforts to fan discontent, weaken

governments, and gain control from within.

Thirdly, inadequate resources of trained personnel and funds for the basic development that they have to achieve if they are to succeed in maintaining their independence and in increasing their capacity to finance their defense and development efforts out of their own resources.

## \$600 MILLION REQUESTED FOR PURCHASE OF SALABLE COMMODITIES

In programs aimed at these three broad problems, the funds proposed are intended to provide, first, a total of \$600 million largely for salable commodities. These commodities will be sold internally in the country, and then the local currency will be used for other purposes.

First, with respect to the commodities themselves: A wide range of

essential items is included, and they serve a variety of purposes.

Surplus agricultural commodities account for about \$110 million out of this \$600 million total. These funds will finance imports of consumer goods, such as foodstuffs, textiles and petroleum products, of which the country is in short supply, and which are needed to keep prices down.

They also will provide raw materials for construction, and raw materials for industries, such as cotton, chemicals, cement, steel, and a number of other products, as well as certain types of equipment which the industries in these countries are in a position themselves

to buy and pay for.

So that, first of all, this \$600 million provides imports which are essential for the functioning of the economy, keeping down inflation, and helping to maintain internal stability.

Senator Green. May I ask a question there?

## DEFINITIONS OF CATEGORIES OF ASSISTANCE

Would it not be well if you would define what you mean by these different terms: "defense support," "technical cooperation," and "de-

velopment assistance."

Mr. Moyer. Defense support—there is a definition in the book, but if you like I would give my own statement. In simple words, defense support is the various forms of economic assistance that are necessary in order to make it possible for those countries that have large armed forces to support their forces without serious economic results.

That includes salable commodities; it includes also certain types of

developmental projects, which I was just about to get to.

Senator Green. Are they made necessary by military assistance? Mr. Moyer. They are in countries where armed forces constitute a serious financial drain on internal resources, but they go beyond what is merely necessary for the financial support of those forces. They also deal with other problems which those countries face if they are to remain stable, if they are to have a secure internal base, and if they are to go ahead with the development which is necessary.

Development assistance is, in simple terms, financial assistance for development activities in countries where we are not providing military assistance. In the Far East there is only one such country, and

that is Indonesia

Senator Green. If you would give an illustration or two, it would help.

Mr. Moyer. Take Indonesia, for instance. One of the important projects to which we are giving development assistance is in a broad

program that the country has to eradicate malaria.

They started about 3 years ago in the beginning of a program which they have been gradually refining, and it has now come to the point where they believe that over a period of several more years they can eradicate malaria in Indonesia.

But in order to do so, besides technical help, which is the third broad category of our assistance, they also need certain supplies. They need the spray material; they also need pumps, and all that sort of

And we are providing some of that.

That is development assistance in Indonesia. Senator Green. As I understand it, the same kind of expenditure, like the example you gave of the fight against malaria, if it was in a country where we furnished military assistance would be charged up to the military as defense support; and if there was no military assistance there, it would be charged up to development assistance.

Mr. Moyer. If there were military assistance, it would be charged up to defense support. If there were no military assistance, it would

be charged up to development assistance.

Senator Green. Then I understood it correctly.

Mr. Moyer. Yes, sir. Senator Green. Thank you.

Then you cannot compare the amounts that are spent in different countries to form a just estimate as to how much goes to a civilian population, unless you know whether there is military assistance there or not. That is a fundamental distinction.

Mr. Moyer. Well, the fundamental distinction is whether or not

military assistance is given.

Senator GREEN. Yes.

Mr. Moyer. In the program of each of these countries receiving defense-support assistance, developmental type of aid is given; it can be put that way.

## USES OF LOCAL CURRENCY GENERATED FROM SALE OF COMMODITIES

Now, turning to that—but I should say just a bit more about what happens to the local currency which comes from these salable commodities. In general, it is used to supplement the budgetary resources of the country to meet certain internal expenses for projects to which we wish to give assistance. And here is where internal budgetary

support to the military comes in.

A larger part of the local currency arising out of this \$600 million is devoted to assistance to meet internal costs of military forces and military construction, supplementing budgetary sources of the countries themselves. If you translated that amount into dollars, that is, the equivalent of dollars, it would be some 45 percent of the total assistance proposed in these programs. The balance of it, representing the equivalent of somewhere around 26 percent of the total assistance proposed in these programs, will go for developmental projects helping with the basic development needed in order to maintain their independence and build up their own capacity for self-support.

That is on the commodities.

## FUNDS REQUESTED FOR DEVELOPMENTAL PROJECTS

I would like to say a bit now on the project side. In addition to this \$600 million largely for salable commodities, these programs provide for approximately \$236 million to meet the dollar costs of supplies, equipment, and technical services that go into developmental projects in these countries, largely under defense support; and there are three general types of development projects that I would like to point to.

Senator Green. As a rule or as a matter of policy, does the local government share in that expense, or does the United States pay it

all?

Mr. Moyer. As a rule, the local government shares, although we have to realize this: that some of these countries are far from able to meet their total financial requirements, so that how much we put into any project and how much they put into it is often a matter that can be shifted. You can do it one way or you can do it another, in this type of a situation. But the rule generally is that they contribute a part of the cost.

#### TYPES OF DEVELOPMENTAL PROJECTS CONTEMPLATED

Now, of the developmental projects, there is one group which serves both the military and economic purpose. They include highways,

railways, power and telecommunications.

Then there is another group related to the development of natural resources, and to industry, basic facilities of that kind, for the diversification of agricultural and industrial production, and not related directly to any military use.

Senator Green. In the case of the last class, do you encourage gov-

ernmental ownership or private ownership?

Mr. Moyer. The funds, Senator Green, go to both types of projects. There are some cases, such as big power developments, often railways, and some others, that are in the hands of the governments of these countries. We are making a continuing and increasing effort to get more and more into private ownership, and to encourage local private

initiative in going ahead with these projects.

A third broad type is assistance strengthening basic government services and programs in such fields as agriculture, health, and education. These you might call the building up of social capital. The others generally are referred to as capital investments; but these are equally an important part of what the countries require, if they are to proceed with their development, and some of our assistance goes to this type of project as well.

Now, you cannot divide this money and say that so much is purely for the internal support of the military forces, that so much is purely to meet the problems of internal subversion, or that another amount is purely for developmental assistance, because funds devoted to any

one purpose serve one or more other purposes.

Commodities help to control inflation and maintain stability. But they also provide local-currency support for the military forces and for development efforts. I should have mentioned, when you add the local currency to the dollar support for developmental projects, the total amount equals approximately 55 percent of the funds proposed in this program.

## SOVIET ECONOMIC PENETRATION IN THE FAR EAST

Senator Green. Does the Soviet Government make any comparable

contributions to these same purposes?

Mr. Moyer. In the Far East, the Soviet entry is not as advanced as it is in some other parts of the world. In Indonesia, for instance, Soviet Russia itself has not so far made any direct contribution; but East Germany, I believe it is, has helped with a sugar refinery.

They, of course, have been making very vigorous approaches in the case of Burma. But what I am talking about here does not include

Burma.

To my knowledge, in the other countries, the Soviet bloc has not so far made an entry into this particular field.

Senator Green. Then we are not rivals, in any sense, in any of the

nations you have shown on this table.

Mr. MOYER. Not immediately, but in the case of Indonesia, for instance, it remains to be seen how that will work out. It could be that there will be assistance both from the Soviet bloc and from the

non-Soviet bloc, as time goes on.

Now, just to give 2 examples of how this looks when reduced to a particular country program, I would like to refer to the programs proposed for 2 countries, the Philippines and the group, Cambodia, Laos, and Vietnam. These will illustrate how these commodities and projects I have talked about are put together into a country program, and also some of the results which are being achieved.

To simplify it, I am going to read these short statements from my prepared statement. In case anyone cares to follow it, the

Philippines is on page 13.

## ASSISTANCE TO THE PHILIPPINES

Programs of economic and technical assistance in the Philippines over the past several years have concentrated on activities in health, education, and agriculture, getting benefits directly to the people. These have been supplemented with other efforts directed toward the same purpose, such as improving highways throughout the islands, opening up new land for settlement, and developing irrigation facilities. Substantial assistance also has been given in the training of personnel required by an independent Philippines in handling its manifold responsibilites.

Assistance through projects in this program has given substantial support to the Philippine Government and people in their effort to improve living conditions and build up the economic strength needed to succeed with their independence. In this they have achieved notable success, as seen in the greatly improved internal situation compared with conditions just a few years ago. Assistance in this

program may reasonably claim some share of the credit.

More recently, a limited amount of local-currency support to military construction projects was added to the program, and greater emphasis was placed on projects to expand and diversify production

in order to help provide employment and add to the country's basic economic strength. A particularly significant undertaking in this direction is a project to provide credit to Philippine private investors for small and medium-size industries, which will be continued in fiscal year 1957.

In this project, surplus agricultural commodities financed with aid funds will be sold for pesos, which the Philippine Government will lend through commercial banks to Philippine private investors estab-

lishing small and medium-sized industries.

Senator Langer. Could I ask a question there? Mr. Moyer. Yes, sir.

#### DIVISION OF LAND IN THE PHILIPPINES

Senator Langer. What has been done in the Philippines about

dividing up the large tracts of land?

Mr. Moyer. The Philippine Government has moved forward on a three-pronged attack on this general problem. The first action all of these, I might mention, started with legislation, appropriate legislation, which was prepared and passed in the Philippines.

The first one dealt with regulating relations between tenants and owners. It had not been regulated until that time, and any kind of rent might be charged on the land, and the tenant might be ousted more or

They are going ahead with contracts which formalize and regularize the relations between tenants and owners, and that is proceeding fairly

The second thing they did was to set up courts, local courts of arbitration, to settle disputes that might arise. There might be disagreements between tenants and landlords with respect to various matters, and courts were set up to handle such disputes, and that is well on the

A third piece of legislation provided for gradual purchase and

making available to tenants some of these larger tracts.

Some of that is well underway, in the Province of Mindanao in the

south, and others of it are just in the beginning stages.

This last phase is less advanced than the others, but it is a part of the basic legislation and a part of the general plan of the Philippines to deal with this problem.

Senator Langer. In Romulo's book, which I read recently, it spoke of these large estates, and said that even up to the present time the

large tracts are still in existence there. Is that true?

Mr. Moyer. I think a great many of them, sir, still are. As I said, this third element in their program is most recent and less developed.

#### DIVISION OF LAND IN INDONESIA AND VIETNAM

Senator Langer. Is that true in Indonesia?

Mr. Moyer. In Indonesia it is not true. I am not sure of the his-

tory, but for some reason cultivators are mainly owners.

Senator LANGER. And the Communists, of course, are using that as an argument for infiltration, aren't they?

Mr. Moyer. They are, and they have tried to do it in Vietnam, also. But in Vietnam, President Diem has initiated a program which it seems is going to be effective in dealing with that.

#### DIVISION OF LAND IN COMMUNIST CHINA

Senator Langer. Do you know, or maybe the Secretary knows, what has happened in Red China? Have the Communists divided up the land in Red China, or have they not?

Mr. MOYER. Yes, it has been fully divided up, confiscated, and

turned over to some kind of cultivator or another.

Senator Knowland. Of course, that is only a transitional stage, is it not, Dr. Moyer? The same situation happened in the Soviet Union. They gave all the lands to the peasants; and then, after they got the land distributed, they began to collect it up again in collective farms and take it away from them.

Mr. Robertson. May I comment on that question, Senator?

Senator Langer. Yes.

Mr. Robertson. Of course, one of the great lures which the Chinese Communists held out to the peasants of China was their so-called agrarian reform. So, after standing the landowners, large and small, up in the public square and liquidating most of them, they parceled out these farms in 1- and 2-acre farms to the peasants; but at the same time they required the peasants to deliver the entire produce of the land resulting from their toiling from sunrise to sunset, 7 days a week, to a government cooperative, at a government price. And then the government doled back the pitiful little subsistence they were given to live on.

So the agrarian reform of the Communists was a great disillusionment in China. The peasant held title to this land, but he was a slave

to the state through his title to the land.

The Communists are now going in more and more for collectivization of the farms and even taking their titles away from the farmers,

and forming large collectively operated farms.

There is nothing that has happened in China, I think, that has been more disillusioning to the mass of the Chinese people than what happened in the so-called land reform program of the Communists.

#### DIVISION OF LAND IN FORMOSA

Senator Langer. What happened on Formosa? Was the land in Formosa divided up, too?

Mr. Robertson. No. I would like Mr. Moyer to answer that, because he spent some time in Formosa, and he is an expert in that area.

Mr. Moyer. The program in Formosa moved somewhat along the same general lines which they are following in the Philippines. Well, in fact, the precise same general lines, these three points of action. And by now, practically all the tenants are in a contractual arrangement with the landlords, and they have definite assurances of rental and length of tenure, and so on.

Courts have been set up in villages. I have seen some of the courts

in action. Local people settle the local disputes.

The Government, in meeting this problem, also decided that land above a certain amount also should be made available for sale to cultivators, and that also has been carried out.

In doing so, the Government fully compensated the holders of the land, and one very interesting way of doing it was, they made available—reference has been made to Government ownership of industries—a group of industries, some of them excellent, some of the best on Taiwan, cement, for instance, out of which shares of stock were issued and are held by the former owners of the land. These are paying industries. It is going well.

Now, as the peasants repay—they have to pay back over a period of years—this money is put in a central fund, and by law this fund has

to be used for agricultural development purposes.

And they are right now planning a very substantial project for which this will provide the local currency, making these projects possible, and a part of the 1957 program is to give dollar support to that project, the local currency for which will come out to this land-to-the-tiller program.

Senator Langer. Is any of our money being used to pay the large

landowners of that land?

Mr. Moyer. No, sir. That came out of Chinese Government funds.

Senator Langer. That is all, Mr. Chairman.

Mr. Moyer. Mr. Chairman, I have taken so much time—I would be very glad to finish these two countries, but, if you desire, I will just close at this time and yield to the others who have statements to make.

#### SOVIET ECONOMIC PENETRATION IN THE FAR EAST

Mr. Robertson. Mr. Chairman, may I supplement Dr. Moyer's reply to Senator Green's question. He asked about the Russian competition.

In Burma, as I stated in my testimony, the Russians have agreed to take 1,600,000 tons of rice to be delivered over a period of 4 years in exchange for technical services, Soviet machinery and equipment, and

various capital goods.

The Russians have also offered Burma the construction and equipment of a technological institute in Rangoon, the construction of hospitals, a theater, a hotel, a stadium, and facilities for industrial exhibitions.

In Indonesia, the Soviet Ambassador has submitted a formal aid offer in April of this year, and stated that they are now prepared to start negotiations for power stations, fertilizer plants, and oil proj-

ects, which have been mentioned as possibilities.

In an interview on May 21 in New Delhi, Prince Sihanouk said that Communist China had given \$22,400,000 for Cambodia's economic development; and, in addition, that Cambodia had signed a trade agreement with Peiping.

So the Soviets by their present tactics are making these economic offers and attempting this economic penetration into all of these

countries.

Senator Green. I suppose the most significant one is perhaps Egypt,

at present, is it not?

Mr. ROBERTSON. That is a situation which is not within my competence to discuss, because it belongs in another area.

The CHAIRMAN. Do you wish to make a statement, Mr. McGuire?

Mr. McGuire. I would like to make a statement, if I may, Mr. Chairman.

The CHAIRMAN. Yes, sir.

### DETERRING EXPANSION OF COMMUNISM IN ASIA

Mr. McGuire. Mr. Chairman and members of the committee, the free world military forces in the Far East continue to be the greatest

deterrent to the expansion of communism in Asia.

With military assistance from the United States, the Asian countries have been able to build up their forces to strengths adequate to maintain internal security and in many instances to assume the responsibility for protection of their own borders from local Communist aggression.

The constant threat of Communist aggression by overt or covert means which jeopardizes security in this part of the world is of such magnitude that we are requesting military assistance funds in the

amount of \$1,026,596,000.

#### COMMUNIST DANGER SPOTS

The areas of greatest potential military danger remain in Vietnam, where there is a demarcation line separating the north from the south, and in Korea, where the opposing armies are separated by a neutral zone.

The Korean Armistice has been violated by the Communists since its inception, and today we find the North Korean ground forces with new and improved weapons with greater firepower. Their air force, which had no planes in North Korea when the armistice was signed, now has jet planes based in North Korea.

The Communists have also violated the Geneva Accords by substantially enlarging and strengthening their military forces in North

Vietnam.

Communist China has been steadily building up its transport and commercial facilities to support ground, air and naval forces which could be used in an attack against Taiwan.

In Southeast Asia, from Vietnam on the east to Thailand and Burma on the west, Communist infiltration, subversion and paramilitary operations are day-to-day menaces to human life and governmental authority.

## MILITARY AID TO FAR EAST

In the Far East, the United States Government already has made a contribution of \$6 billion of military aid, including over \$3.5 billion of equipment which was furnished directly to the governments of Korea and Japan prior to the institution of the mutual security program in these countries. These assets represent the bulk of the military hard goods and other equipment for the two million free Asians under arms whose military efforts are very greatly helped by our military assistance program.

The request for more than a billion dollars for military aid in the Far East represents a substantial increase over appropriations for

this area in 1956 for reasons which I will state later.

Korea, Taiwan, and Japan will receive about three-fourth of this amount, and the remainder will be used for military aid to the Philippines, Free Vietnam, Laos, Cambodia, and Thailand.

### SOUTHEAST ASIA TREATY ORGANIZATION

I would like to speak for a moment as to SEATO.

A significant development in increasing the security of free Asia is the encouraging growth of the Southeast Asia Treaty Organization. The members of this regional security pact are Australia, France, New Zealand, Pakistan, Philippines, Thailand, United Kingdom, and the United States.

Its primary purpose is defense against open-armed aggression or subversion. SEATO, from a military point of view, is not a panacea for all the ills of the area, but it does complement other United States

treaties with nations in contiguous areas.

The future military capability of SEATO will, to a considerable degree, be dependent upon United States support through continued military assistance programs for those southeast Asia countries with whom we have bilateral mutual defense agreements.

I shall now refer briefly to the individual country programs of mili-

tary assistance proposed for the Far East.

First, Korea.

Senator Mansfield. Mr. Chairman, it is getting close to noon, and I am wondering if we could ask some questions now.

The CHAIRMAN. Mr. McGuire, can you yield now?

Senator Mansfield. I would like to ask questions of some of the others, if I may.

Mr. McGuire. Fine. That is quite satisfactory. The Chairman. All right, you may proceed.

Do you wish to ask some questions now?

Senator Mansfield. Yes.

## COUNTERPART USED FOR TECHNICAL ASSISTANCE CONTRIBUTIONS

Mr. Moyer, in the report issued by the Technical Assistance Subcommittee, it was pointed out that certain countries were using the counterpart generated from funds supplied under the mutual security program as their contributions to technical assistance in the Far East.

Your report, in the executive branch presentation book, reveals the following instances of local currency resulting from defense sup-

port being used to pay local costs of technical assistance:

Cambodia, \$5 million; Korea, \$1.5 million; Laos, \$0.7 million; Thailand, \$1.8 million; Vietnam, \$10.9 million.

What is your comment on that?

Mr. Moyer. Those facts are correct, Senator Mansfield.

First of all, this does not add to what we properly call technical assistance. The technical assistance we keep separate and identifiable, and we think within the definition which the Congress has laid down.

However, in each one of these countries mentioned, the question is

how we achieve our objectives.

In the case of the technical assistance projects, we are offering advice and training and demonstration, but there also come times when it is desirable in our interest, and for the purposes the program serves, to move forward more rapidly than can be done with technical assistance alone with some of the projects to which technical assistance also is being given.

In these countries that you have mentioned, Senator Mansfield, we look, and I think we have to look, at these programs as having a

number of tools.

We are working for a single objective. In order to achieve that objective, we bring into play the various tools that we have available

for that purpose.

Now, I mentioned the salable commodities and local currency that is generated. Some of that local currency is applied to help countries move forward more rapidly with some of the projects receiving technical assistance, and we think it is a good idea.

That has been done in the countries you mentioned, and the result is, in a situation where they don't have forever, where acceleration is necessary, we believe that giving this kind of local currency support to these projects is in our interest and promotes the general purposes of

the program.

Senator Mansfield. Well, the subcommittee report states that it is conceivable that in some circumstances technical assistance would be the best use to which counterpart could be put. But the sort of arrangement described in the report raises grave doubts as to whether the economic aid in question was not in fact furnished primarily to generate the counterpart needed for technical assistance.

The subcommittee strongly deprecates such action. I believe, Senator Green, you found a similar circumstance in Iran while you were

there. Would you care to say anything on it?

Senator GREEN. That is right.

No. I supplement what you say. Senator Mansfield. It seems it is one way of getting around the problem. We will go into that later, but I want to ask Secretary Robertson a question.

## TREND TOWARD NEUTRALISM IN SOUTHEAST ASIA

Mr. Secretary, is it true that in southeast Asia at the present time there is a strong and decided trend toward neutralism?

Mr. Robertson. Yes; there is.

Senator Mansfield. Is it true that the situation there is stable, in a sense, but potentially has the prospects of getting a great deal worse?

Mr. Robertson. That is right.

Deleted.

Senator Mansfield. Those are all the questions I have to ask at this time, Mr. Chairman.

The CHAIRMAN. Will you finish your statement now?

Mr. McGuire. I would forego reading it, sir, if it could be put into the record for the convenience of the committee.

The CHAIRMAN. You may submit it for the record.

## (Mr. McGuire's prepared statement is as follows:)

STATEMENT BY E. PERKINS MCGUIRE, DEPUTY ASSISTANT SECRETARY OF DE-FENSE (INTERNATIONAL SECURITY AFFAIRS), FOR MUTUAL DEFENSE ASSISTANCE PROGRAM

Mr. Chairman and members of the committee, the free world military forces in the Far East continue to be the greatest deterrent to the expansion of communism in Asia. With military assistance from the United States, the Asian countries have been able to build up their forces to strengths adequate to maintain internal security, and in many instances to assume the responsibility for protection of their own borders from local Communist aggression. The constant threat of Communist aggression by overt or covert means which jeopardizes security in this part of the world is of such magnitude that we are requesting military assistance funds in the amount of \$1,026,596,000.

The areas of greatest potential military danger remain in Vietnam, where there is a demarcation line separating the north from the south, and in Korea,

where the opposing armies are separated by a neutral zone.

The Korean armistice has been violated by the Communists since its inception and today we find the North Korean ground forces with new and improved weapons with greater firepower. Their air force, which had no planes in North Korea when the armistice was signed, now has jet planes based in North Korea. The Communists have also violated the Geneva accords by substantially enlarging and strengthening their military forces in north Vietnam.

Communist China has been steadily building up its transport and commercial facilities to support ground, air, and naval forces which could be used in an attack against Taiwan. In southeast Asia, from Vietnam on the east to Thailand and Burma on the west, Communist infiltration, subversion, and paramilitary operations are day-to-day menaces to human life and governmental authority.

In the Far East, the United States Government already has made a contribution of \$6 billion of military aid, including over \$3½ billion of equipment which was furnished directly to the Governments of Korea and Japan prior to the institution of the mutual security program in these countries. These assets represent the bulk of the military hard goods and other equipment for the 2 million free Asians under arms whose military efforts are very greatly helped by our military assistance program.

The request for more than a billion dollars of military aid in the Far East represents a substantial increase over appropriations for this area in 1956 for reasons which I will state later. Korea, Taiwan, and Japan will receive about three-fourths of this amount and the remainder will be used for military aid to

the Philippines, free Vietnam, Laos, Cambodia, and Thailand.

#### SEATO

A significant development in increasing the security of free Asia is the encouraging growth of the Southeast Asia Treaty Organization. The members of this regional security pact are Australia, France, New Zealand, Pakistan, Philippines, Thailand, United Kingdom, and the United States. Its purpose is defense against open armed aggression or subversion, and improvement of economic and social conditions. SEATO, from a military point of view, is not a panacea for all the ills of the area but it does complement other United States treaties with nations in contiguous areas.

The future military capability of SEATO will, to a considerable degree, be dependent upon United States support through continued military assistance programs for those southeast Asia countries with whom we have bilateral mutual-

defense agreements.

I shall now refer briefly to the individual-country programs of military assistance proposed for the Far East.

KOREA

The armed forces of the Republic of Korea today are maintaining a front against the Communists near the 38th parallel, defending their country against further Communist aggression. By developing the military potential in Korea we have enabled them to assume the major part of the responsibility of defending their own country—a responsibility in which they take great pride. The ROK Army is the largest non-Communist army in Asia. Any weakening of our support would have serious repercussions throughout the entire Far Eastern

area. The effectiveness of the ROK forces depends upon adequate maintenance of their military weapons and equipment. Consequently, substantially larger funds are being requested to provide the necessary spare parts and components to maintain the equipment now in their hands. The limited resources of the country make it impossible for the Koreans to assume the whole financial burden of their military requirements. Our choice in Korea is simple. If we are to have the forces necessary to preserve the independence of South Korea, we must assume a large part of that burden.

#### JAPAN

When the Korean war broke out the strategic importance of Japan was manifest not only as a base for U. N. troops going to Korea, but also as an important military production base. Before the mutual-assistance agreement with Japan was signed March 8, 1954, the United States had assisted Japan by lending them certain military equipment. Its economy was substantially assisted by direct United States military expenditures in support of the occupation and the Korea war. The Japanese ground self-defense force is expanding and developing into an organization that will eventually be able to defend Japan. The air self-defense force is now flying planes furnished by the military assistance program, some of which were assembled in Japanese factories. The maritime self-defense force, although limited to a number of vessels of destroyed size or smaller, is becoming progressively more effective.

The Japanese plan for military defense provides for modest annual increases in the strength of all three services. United States military assistance funds are being requested to provide the Japanese defense forces with essential equipment which they are unable to provide within their own defense budgets.

#### TAIWAN

Among the anti-Communist nations in the Far East, the Nationalist Government of the Republic of China has defense forces second in size only to the Korean forces. In order to cope with a potential Chinese Communist invasion of Taiwan, it is essential to strengthen and maintain the combat effectiveness of its defense forces. Substantial progress has been made both in equipping them with modern weapons and in training them in their use.

Special attention will be given in fiscal year 1957 to an extension of air defense capability, especially through the provision of additional jet aircraft. The training of Army Reserve Forces will also be emphasized. As in previous years, the provision of military soft goods must be continued, since nearly one-third of the entire military assistance requirement for Taiwan in 1957 will be for clothing materials, rations, petroleum products, construction supplies, and other similar requirements of their armed forces.

#### **PHILIPPINES**

With the reduction of the threat of Communist-led rebels, internal security in the Philippines has been improving. The growing effectiveness of the Philippines armed services supplied with weapons, gunboats, aircraft, equipment, and training through the United States military assistance program is also encouraging. The general need of economic development, however, has been a major factor in the inability of the Philippine Government to provide adequate funds for the support of its own defense forces. Consequently, the current defense expenditures amounting to approximately 20 percent of the national revenue are a considerable strain on the Philippine Government. The continued provision of the United States military supplies, equipment, and training is required in order that the Philippines may continue to contribute to the security of the free world in Asia.

#### VIETNAM

There has been a substantial increase during the past year in the organization, level of skill, and general strength of the free Vietnamese forces. These forces are becoming quite effective in cooperating with the police, and in destroying subversive forces who oppose the free and independent democratic Government in free Vietnam. There is substantial hope of improving the internal security of this area of southeast Asia.

Only limited amounts of military assistance principally for construction, replacement, and spare parts are needed to support the Free Vietnamese forces

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since equipment already furnished is currently sufficient to meet most materiel requirements.

#### LAOS AND CAMBODIA

The preservation of internal security in Laos and Cambodia requires effective military forces since their proximity to Communist-controlled areas leaves them particularly vulnerable to Communist infiltration and paramilitary activities. The major portion of the military requirements to meet this internal security threat was already in Indochina prior to the Geneva accords.

The relatively small amount of United States military assistance for these countries is primarily for maintenance purposes and military-support items

such as food, petroleum, and some military soft goods.

#### THAILAND

The free world orientation of Thailand, its position in SEATO, and the effectiveness of its military organization, combine to make it one of the most influential small nations in Asia. Through military assistance, the United States has already contributed much to equipping the Thai forces. The requirements in fiscal year 1957 are primarily to protect and maintain this prior contribution.

Senator Smith. Mr. Chairman, I have 1 or 2 questions I would like

The CHAIRMAN. All right.

## COMMUNIST TACTICS IN THE FAR EAST

Senator Smith. Secretary Robertson, you mentioned the special trouble spots-Korea, Taiwan, and Vietnam, with which we are all

familiar, and, to a lesser degree, Laos.

Do you have any evidence or any suggestion from any source that there is apt to be a combined attack from the Communists in those areas? I have heard it suggested that the big buildup in North Korea, the buildup on the mainland off Taiwan, and the situation in Vietnam, suggest the possibility of a combined movement there which might call for an all-out defense of some kind. Or, do you think they are just threatening and trying to use these other subversive methods of helping the countries economically?

Mr. ROBERTSON. I think that they are playing both sides of the street. They are building up military strength, and at the same time they are conducting intense economic and psychological warfare un-

der a facade of talk about peaceful coexistence.

You can never speak with any certainty about what the Communists are going to do. They will do the thing which they think is in their interests to do. [Deleted.]

But I also think that if we should disarm ourselves and reduce our strength and make it almost certain that a military aggression would be successful, I think there would be a very grave danger of a military attack.

## NECESSITY OF OBTAINING AMOUNTS REQUESTED

Senator Smith. Then do you feel that the assistance figures dealing with the Far East which have been presented to us are "must" figures, so far as our military preparations are concerned? I think Mr. McGuire has indicated that.

Mr. Robertson. Yes, Senator. I don't think you can cripple either program, either your military program or your economic program, without crippling the chances of achieving our objectives.

I think they are interrelated and that one is dependent upon the

EFFECT OF HEAVY SLASHES IN AMOUNTS REQUESTED

Senator SMITH. There has been talk of some drastic cuts in the House. Of course, we do not know yet what the House is going to do, but I even heard it suggested, only a day or two ago, that some of the members were thinking in terms of possibly an overall cut of a billion dollars; then, if that cut was not adopted, they might try to cut half a billion.

I am wondering how you feel, so far as your area is concerned. If you had to take that proportion of the cut in the military and non-military aid, what would be the effect on the Asian area that you rep-

resent? Would we lose Asia to the free world?

Mr. Robertson. In my opinion, it would be catastrophic.

Senator Mansfield asked me about this drift to neutralism. It

Senator Smith. Let me interrupt you there a minute. Do you look at neutralism really as anti-Americanism?

Mr. Robertson. No. I don't. [Deleted.]

To come back to you, Senator; I think that these problems are all related. For us to make a tremendous slash in our military-aid appropriations, which are necessary to maintain a military deterrent to Communist aggression throughout the area, would indicate to the Asians that we are giving up the battle. And I think it would be a tremendous victory for the Communists.

With your permission, Dr. FitzGerald has a statement to make on

the Asian development fund and he would like to submit it.

Mr. FITZGERALD. Mr. Chairman, if I may, I would like to submit a brief statement on the Asian development fund for the record, and make a few, and I hope brief, remarks to the committee on it.

The CHAIRMAN. Yes.

Senator Fulbright. I would like to make one observation on what Mr. Robertson has just said, because I have to go to the Senate floor in a moment.

## QUESTION OF EMPHASIS UPON MILITARY ASSISTANCE

I do not think there is any question in our minds about withdrawing or giving up assistance altogether. The question is whether or not what we are doing is well designed to accomplish the purpose, and whether or not the emphasis upon military expenditures is properly adjusted to the particular situation in the area.

So to present the matter as if we wish to withdraw or completely give up the struggle is not quite accurate. You yourself mentioned what the Russians are doing in Burma, for example. They are undertaking projects which seem to me very cleverly designed to achieve the objective of creating greater friendship between Burma and Russia.

For example, you mentioned the technological institute which they will create and man, and assistance there in certain activities which are very easy to dramatize, and all those things of an economic nature.

It strikes me that what is fundamentally wrong with our program is that it just is not well adjusted to the immediate demands.

I think if they permit us to go along or we permit ourselves to go along the military line, and the Russians take up and emphasize such things as the technological institutes, the delivery, as the chairman said, of two modern oil drilling rigs to India, and so on, that they simply are outwitting us and pursuing a much more effective program than we are.

That is the whole question. It is not that we are just going to quit. Mr. ROBERTSON. I think, Senator, that we must pursue both pro-

grams if these countries are to preserve their independence.

These countries are under no danger of military aggression from the Western World. As you know, the technicians which the Russians send into these countries for their technical programs and schools, to teach them how to do this and that, every one of them is an agent of international communism. They go in to subvert, to infiltrate, and finally to overthrow the government they are ostensibly sent in to help.

I agree with you that you can't have only a military program. You must have a military program in Korea, it seems to me; you must have one in Taiwan; you must have one in Vietnam; you must have

one wherever you are faced with Communist forces.

 $\lceil \mathbf{Deleted.} \rceil$ 

Senator Fulbright. The fact remains that 85 percent of this pro-

gram is military.

Mr. Robertson. But where is most of it being spent? Korea, Taiwan, and Vietnam. If there is any way that we can reduce our military strength in those three areas without running a terrific risk, then I think we are justified in doing so.

## EFFECT OF HEAVY SLASHES IN AMOUNTS REQUESTED

Mr. McGuire. Mr. Chairman, I don't know whether I would be out of order on this or not, but in line with that and with the question Senator Smith raised, it so happens that in developing the military side of this program, in an attempt to be sure that our program was not an inflated program, we asked the Joint Chiefs of Staff what would happen if this program were limited to \$2 billion. This was done in November.

The Joint Chiefs of Staff replied that, in their opinion, the program could not be funded on \$2 billion, if we were to protect the commit-

ments and positions which we had.

There is prevalent a feeling that if we took the major part of any cut out of Europe, which I think would be harmful, Europe presumably being further advanced, that the other areas would not be seriously affected.

We reviewed the program from that point of view, and found that if we cut this program \$1 billion, and took \$600 million of it out of the European area, we would still affect these countries that we are talking about to a very sizable degree.

Do I give you further information on the point you asked, Senator? Senator Smith. Yes. I think that is all very important for the

record.

[Deleted.] Senator SMITH. Of course, my question was to bring out just what the effect would be on the overall program, and the dangers expressed in this Far Eastern area.

## COST OF ARMING TROOPS OF OTHER COUNTRIES

Senator Long. One of the difficulties that occurs to me about this program arises in connection with spreading these arms in 6 or 8 or 10 different countries—and, of course, you have no assurance that any given point is the place where the trouble is going to break out. Even though it might be cheaper to arm those people than our own people, if you have to arm a number of countries under the theory that if trouble breaks out in any one spot, that is the only place where the arms are going to be used, it then becomes more expensive to arm them than it does to arm our own troops for this purpose.

Mr. Robertson. Senator, except, as I say, in three places where we are confronted with large Communist forces, in North Korea, in Taiwan, and in Vietnam, our military programs are more to maintain

internal security.

Take a little country like Vietnam, if the Government of Vietnam had no army, it would have been an absolute prey to these sects which

had their own armies.

As I said in response to Senator Fulbright's question a while ago, if you believe that the Communists mean what they say, and they just want to be friendly and coexist, and they are not really trying to get physical possession of these countries ultimately, I think we are

perfectly safe in junking our military program.

But if you believe, as I for one earnestly believe, that they have not changed their objectives one whit, they are merely adjusting themselves to the necessities of the situation, they having been blocked in overt aggression in Korea and Vietnam and put on notice that force would be met with force, then they promptly changed their

tactics.

Now, for us to pour economic help into these areas, and then reduce the miltary strength needed to help those nations protect themselves from overt aggression by the Communists, would just be enriching the prize that the Communists would ultimately take over.

And, as I said before, every Communist agent that goes into these countries, every technician, is an agent of the Communist Party. They are there to do what? Not to help the Government, but to overthrow it.

Senator Long. General Van Fleet wrote an article that appeared in Reader's Digest, and you undoubtedly read it. In it he contended that it was possible to arm and maintain a division of Far Eastern troops at an expense on our part of \$10 million per division, with the kind of arms he would use.

His attitude was that we were overarming; we were giving them complicated equipment, where mortars and more simplified types of artillery, and rifles, and things of that sort, would be more appropriate.

Have you ever made any study as to whether you could cut the cost of maintaining divisions in those areas in line with that estimate? Mr. Robertson. No. I would not attempt to answer that.

Mr. McGuire. We are constantly reviewing the problem and we are making more intensive efforts to be sure that the mission of the particular troops we are equipping is kept in mind.

For example, we do not anticipate that the majority of the troops we are supporting would have a mission that is worldwide, and we try to keep out of their equipment those things which would be

superfluous for their mission.

Senator Long. Here is the point. If General Van Fleet's estimate of costs is correct, you could maintain a hundred divisions for a billion He certainly is one of the best authorities on the cost of maintaining divisions, is he not, and I believe in these military missions overseas he probably has had greater success than anybody we ever put in that business, at least just as much.

Mr. Robertson. I am from the Department of State, so I will stay

out of this.

Mr. McGuire. Actually, in this area, there are about 65 infantry divisions, and in addition there are other related items like air and naval equipment included in the billion dollars.

I don't know that we are really so far from his figure. I am neither

defending his figure nor attacking it.

Senator Long. Is a billion dollars for this area being requested for this fiscal year?

Mr. McGuire. A billion twenty-six for this area.

Senator Long. If you arrive at it based on 65 divisions, based on General Van Fleet's estimate you would be running about \$650 million instead of a billion.

Mr. McGuire. General Van Fleet is talking about Army divisions only. We have 65 divisions, and we have in addition Air Force and Navy programs.

Mr. Robertson. Do I understand that General Van Fleet is recom-

mending a cut in the military appropriations for Korea?

Senator Long. No, that was not it at all. Mr. Robertson. I would be amazed if he did.

Senator Long. I was referring to an article he wrote some years ago on how he thought we should go about arming these Far Eastern troops. He wrote an article in the Reader's Digest on arming troops in Korea, and his estimate was that you should be able to get by with about \$10 million per division.

Mr. McGuire. I would not argue the point with you. I have not read the article, Senator, but I would like to point out that included in our figures are other items besides just giving the chap a gun; for

example, there is some DFS included in there.

[Deleted.]

Senator Long. What does that include?

Mr. McGurre. That includes things like uniforms, consumables, the construction of the military barracks, and that type of thing, which I do not think General Van Fleet would have included in his figures.

## MAINTAINING FAR EASTERN ARMIES

Senator Long. How much do you expect those people themselves to pay for maintaining the armies? If that is the estimate, if the cost of maintaining those divisions is in line with what was estimated, we are picking up the whole tab. Are we paying the whole thing?

Mr. Robertson. Senator, take Korea, for example, where we have

our largest program in the world. That program takes up an enor-

mous part of what we are spending in the Far East. About 78 percent of Korean revenues go for military purposes. That leaves them some 22 or 23 percent for all the other purposes of government. The reason we have to go in with an economic program is to keep inflation from blowing the whole thing sky high.

For a little country of 20 million people the large army may seem

like an absurdity, in relation to the size of the country.

But it is not absurd in terms of the Communist forces facing them across the 38th parallel.

Our Korean program is not just a program for Korea. It is a pro-

gram for the United States of America as well.

Mr. McGure. Senator, in answer to your final question on General Van Fleet's estimate, I suspect his estimate was on initial equipping only and did not include maintenance and support of that equipment.

Senator Long. I understood he was including both.

Mr. Robertson. The only point I wanted to make was that this Korean army represents a United Nations army, and not just a Korean army. If we did not have Korean troops there we would have to have United Nations troops, which means if you had any at all, they would be largely United States troops.

And so, in terms of our own interest we can maintain those troops

there a great deal cheaper than we can maintain an equal number of

our own troops if we had them, which we have not, to spare.

Senator Long. Of course, one advantage we get from our own

troops is that they are available wherever trouble breaks out.

Mr. Robertson. But we just have not got them. And suppose we had our own troops in Korea and trouble broke out somewhere else. Although we needed them elsewhere we could not withdraw them from Korea, because that would leave the 700,000 Communists there com-

pletely unopposed.

Senator Long. The point I was making, though, was that our own troops and our own forces, while they cost much more to arm, are available to go wherever trouble breaks out, while, on the other hand, we do have this problem in Korea, Taiwan, Vietnam. Whenever trouble breaks out in one of those places, just those local forces are available. You cannot get the force in Korea to help in Taiwan.

Mr. Robertson. No, because the trouble is already in Korea, Tai-The trouble has already broken down. It is wan, and Vietnam.

there.

We had a terrific war in Korea and a bad war in Vietnam, and now a threatened war in Taiwan.

## POLITICAL SITUATION IN KOREA

Senator Humphrey. Mr. Chairman, may I ask a question about the Korean political situation. I do not care to discuss the military aspects here too much. I have listened to your comments, and I think it is pretty well known to us what the problem is.

What about this last election in Korea, Mr. Secretary? Is it not true that the gentleman who was elected vice president has somewhat of a different view on American aid to Korea than Mr. Syngman

Rhee?

Mr. Robertson. Senator, I don't know what his views about American aid are. He is a man who is friendly to America.

Senator Humphrey. Yes.

Mr. Robertson. You know he was a former Ambassador here.

Senator Humphrey. Yes.

Mr. Robertson. He is considered a man of character—I do not know him personally—but he is a man well thought of.

Senator HUMPHREY. What was the name of his party? The Liberal

Party?

Mr. Robertson. No, the Democratic Party.

Senator HUMPHREY. I had a visit with a man from Korea sometime ago. [Deleted.] He told me of the most unbelievable police state methods being used there. I have his name in the office, and I got some background on him and his record. In fact, I brought this matter up with Secretary Dulles, and I sent a letter over to the Department, I believe, on it.

Deleted.

But the sum and substance of his argument was that we are becoming the most hated, disliked country, and that our aid is going to Syngman Rhee, who is governing with the most obnoxious practices; and, therefore, we are being called all the names in the book because of our unstinting and unlimited support of Mr. Rhee.

[Deleted.]

This man told me there become more Communists every day than you can possibly count, simply because of the dislike of the manner in which Syngman Rhee rules and the manner in which American aid has been used.

Also, he indicated to me, and I have got a lot of material on this,

all sorts of corruption and misuse of American funds.

Now, what is this situation? This is what we constantly keep hear-

ing about.

Mr. Robertson. Well, Senator, I have no doubt that there are many things in Korea that need correcting, but as I listened to your repeating what this man has told you—and I have had a pretty close contact, myself, with Korea for the past 3½ years—I just don't accept his statements as even approaching reality.

I think the Korean people are tremendously grateful to the United States for United States aid. I think they are tremendously friendly

to the United States. [Deleted.]

## RECENT KOREAN ELECTION RESULTS

There is no doubt, in my opinion, that this election, instead of being alarming is healthy. We want a two-party system in Korea as here at home. Syngman Rhee's party carried Korea by about the same percentage of the popular vote that President Eisenhower carried America in the last election, about 56 percent, 55½ or 56 percent.

To me, from the standpoint of the democratic process we value, if the police state that your informant talks about had been one whit as bad as he says it is, would 44 or 45 percent of the people have voted in opposition? When you have elections in police states, you have a hundred percent on the side of the police state.

Senator HUMPHREY. I do not think the man indicated it was a totalitarian state, but, as you know, there have been a number of

reports of late that there were all kinds of shenanigans in this election. Mr. Robertson. I would be the first to say that there probably has been corruption in Korea, like there has been in every country in Asia, and as there has been in this country. We have had some pretty bad examples of our own.

I think it more prevalent in Asian countries than in the Western countries, in all of the countries in Asia. But I do not think you can

hold out Korea as an outstanding example of it.

It is certainly true there are things there that should be corrected, but to say that we are supporting a leader who has been repudiated by the Korean people, for this man to tell you that, I, for one, just don't agree.

Senator Humphrey. I took it with a grain of salt, but I thought it

was worthy of consideration.

I want to say, sir, that I do not rub out all these complaints on the basis that you have heard differently.

### U. S.-KOREAN DEALINGS

Do you meet separately with the representatives of a political party that is in opposition to Syngman Rhee, which is a democratic party, a non-Communist Party? Do you sit down and meet with them separately?

Mr. Robertson. No; we don't. Senator Humphrey. Why not?

Mr. Robertson. For the reason that when we go to these countries, we are on about the tightest possible schedule, and our relations are

with the existing governments of the countries.

The Republic of Korea was set up under elections supervised by the United Nations. The Government of Korea is democratically elected. The Communists put out all the propaganda that Syngman Rhee was going to steal this election from the opposition and count this man out and put in his own candidate for vice president.

He did nothing of the kind. He accepted the verdict of the people. When we go, when we deal officially, it is a very different thing for the Secretary of State or one of his assistants who deals with that problem. When we go there, we go to talk and discuss the problems with the duly elected government of the people. [Deleted.]

The CHAIRMAN. Mr. Secretary, the committee would like to recess now. The Sergeant at Arms has been instructed to get a live quorum,

and we will have to report.

Dr. FitzGerald, you have not begun your statement. Do you wish

to put it in the record, or come back at some other time?

Mr. FITZGERALD. I am at the committee's preference, Mr. Chairman. I would like to put it in the record now, and I will be very glad to come back.

The CHAIRMAN. You may put it in the record.

(Mr. FitzGerald's prepared statement is as follows:)

STATEMENT OF D. A. FITZGERALD, DEPUTY DIRECTOR FOR OPERATIONS, INTERNATIONAL COOPERATION ADMINISTRATION, ON THE PRESIDENT'S FUND FOR ASIAN ECONOMIC DEVELOPMENT

I am appearing before you today to report on current operations of the President's Asian Economic Development Fund and to indicate to the committee the directions which we believe projects and activities financed from this fund will take in the future.

The President's Fund for Asian Economic Development was established for the first time in the mutual security legislation last year with an appropriation of \$100 million for fiscal year 1956 and an authorization for an additional \$100

#### PURPOSE OF THE PRESIDENT'S FUND

The fund marked an important new undertaking by which the United States proposes to stimulate and encourage mutual cooperation among the countries of free Asia. Such cooperation in the economic sphere is a relatively new concept for these countries. To cite just one example: At the present time only about 30 percent of the total volume of foreign trade of the area takes place within the area; by far the largest part of the area's foreign trade takes place with Western Europe, the United States, and other parts of the world.

Nevertheless, the establishment of the fund in 1955 aroused widespread and favorable interest among the countries of free Asia in that the language and spirit of section 418 clearly reaffirmed the policy of the United States to foster rapid economic growth of this area. The provision emphasizing preference for projects or programs that are of benefit to the area as a whole or of benefit to a group or groups of countries was directly responsive to the growing tendency of these countries to identify themselves as "Asian." It also directed attention to the close relationship between economic cooperation within the area and the economic development of the individual Asian countries. Finally, the provision which permitted the fund to remain available for obligation until June 30, 1958, provided the time that the Asian countries needed to develop feasible and mutually beneficial projects.

#### OPERATIONAL PROBLEMS

The establishment of the fund also presented some new operational problems. There are at the present time no institutional mechanisms for the carrying out of joint projects such as, for example, the Organization for European Economic Cooperation provides for Western Europe. The Colombo plan, although an important regional forum, does not provide an operating mechanism for continuous coordination of a regional effort. Despite this lack of institutional mechanisms and the absence of a tradition of economic cooperation, a surprisingly large number of proposals for use of this fund for regional projects, which in spirit, at least, met the intent of the law, were developed within a remarkably short period of time.

It was in the nature of these projects that they required careful preliminary technical examination by the countries involved and by ICA. A method of work was, therefore, developed under which projects once submitted were subjected to very careful scrutiny, first on paper and later by survey teams in the field, before funds for implementation of the projects were obligated. This was in line with the intent of the law, which, recognizing that a program of this type would require an unusual degree of developmental work, authorized the obligation of funds over a 3-year period.

#### CREATION OF AN ASIAN NUCLEAR CENTER

The first major project to be financed from the fund is a regional nuclear research and training center to be located in the Philippines. At the Singapore meeting of the Colombo plan in December 1955, the Director of ICA, on behalf of the United States Government, offered to contribute substantially to the creation of an Asian Nuclear Center. This contribution would provide funds for the training of Asian students, for laboratory facilities including reactors suitable for a large training center, and for equipment of various kinds to

facilitate research.

A group of scientists assembled by the Brookhaven National Laboratory, under contract to ICA, is currently traveling in the Colombo plan area to assemble basic data upon which the technical and administrative planning of the center may proceed, to stimulate a sense of Asian participation in the project, to define the relationship between the participating countries and the center, and to plan the physical facilities and programs of the new institution. It is expected that the detailed plans for the center will be presented to the Colombo Plan Consultative Committee in New Zealand next December. The financial requirements of the project have been estimated at up to \$20 million, the financing to come from this fund because the project (a) serves a number of countries in the Asia area and (b) requires substantial planning and construction time.

## CREATION OF A REGIONAL TELECOMMUNICATIONS SYSTEM

A second major project which will shortly be in the field survey stage involves the creation, for the first time, of a regional telecommunications system in Thailand, Vietnam, and Laos. It is expected that this system will do much to tie these heretofore isolated countries more closely together.

## PROPOSALS UNDER STUDY

In addition, a considerable number of proposals are under active study and consideration. They generally fall into three classes:

1. Projects which will provide badly needed road and rail communications

between adjacent but presently isolated countries.

2. Projects which will develop raw material resources potentially available in one country of the area for industries needing those raw materials in other countries of the area.

3. Training and demonstration institutes and centers in such fields as fisheries, agriculture, public administration, inland water transportation, forestry, and community development. The proposals are to place such activities on a cooperative regional basis. One example is a regional inland water transportation project, to be physically located in Pakistan, to which we may contribute badly needed equipment.

The projects and programs now being funded or under active study, taken together, are estimated at close to \$100 million, i. e., the amount appropriated to this fund by the Congress in fiscal year 1956. ICA has received a number of additional project proposals, which in the absence of availability of additional

funds have not yet been given serious consideration.

As the countries of Asia gain experience in identifying useful projects of a regional nature, other proposals will emerge in the near future and a number of these will warrant serious consideration for our financial support. Without the availability of the remaining \$100 million now being requested, the cooperative consultation of the Asian countries will tend to lessen and consideration of additional proposals by the United States will have to be curtailed. The availability of additional funds, on the other hand, will have the effect of continuing and reinforcing the beneficial activities made possible by this fund.

There are two points in connection with this fund which I would like to call to

the attention of the committee:

#### POSSIBILITY OF USING PART OF FUND FOR BILATERAL ASSISTANCE

1. The possibility that, in the case of emergencies in this area, part of this fund may have to be drawn upon to help finance urgently required bilateral assistance to some countries in the area covered by the fund, was mentioned to the committee during the hearings last year and should be reiterated this session. A total of \$4.2 million from this fund is, in fact, being obligated for bilateral programs this fiscal year. I should like, however, to emphasize to the committee that we regard this fund as a regional fund and that we will use it for bilateral assistance only as a last resort and if no other funds should be available.

## MEANING OF "BILATERAL" ALLOCATIONS FROM THE FUND

2. During our presentation to this and other committees last year requesting the establishment of this fund, we stated that allocations from the fund would be on a bilateral basis. The use of the term "bilateral" in the context of a fund which is supposed to stress a regional approach has caused some confusion among those who have to administer the fund and, in the light of our 1 year's experience, may have been ill-advised.

The essential point of our use of this term, and which we believe was all that was in the mind of the Senate Foreign Relations Committee in mentioning it in their committee report of last year, was that the United States should preserve the decision-making responsibility with respect to the uses to which the fund would be put rather than turning it over in an unearmarked lump sum to an inter-

national organization.

We believe that the Asian Nuclear Center which this fund will help establish is truly regional in scope and concept within the intent of the legislation. It would not be exact, however, to describe the arrangements and negotiations now taking place with respect to that center as "bilateral." Nor would such description strictly apply to training or other regional centers which this fund might

help to create. In all of these cases our arrangements might well be with and our assistance be to an organization established by the several countries of the region rather than with a particular country or even groups of countries on a government-to-government basis. We feel that the language of section 418 (c) was clearly intended to make such activities possible, and all I am attempting to do here is to clarify the record on this point.

The Charman. At the request of certain members of the committee, Secretary Wilson is reporting to us in this room at 2:30, and I hope that the committee will be on hand to finish such questions as we may have to ask Secretary Wilson.

The committee will stand in recess until 2:30, when Secretary

Wilson will be present, this afternoon.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2:30 p. m., of the same day.)

#### AFTERNOON SESSION

Present: Senators George (chairman), Green, Fulbright, Sparkman,

Mansfield, Wiley, Smith, and Langer.

Also present: Colonel H. H. Critz, OSD, ISA; E. Perkins McGuire, Deputy Assistant Secretary of Defense for MDAP, International Security Affairs; and Gordon Gray, Assistant Secretary of Defense.

The CHAIRMAN. Mr. Secretary, when you were before the committee, some of the Senators did not have an opportunity to submit some questions, and I think Senator Mansfield was one of those, and he is now present.

We have other members here, and we will not keep you waiting any

longer and away from your other duties.

If you have any additional statement you would like to make before you answer questions, we will be glad to hear you; and if not, I will ask Senator Mansfield to proceed with such questions as he wishes to ask.

## STATEMENT OF HON. CHARLES E. WILSON, SECRETARY OF DE-FENSE; ACCOMPANIED BY ADM. ARTHUR W. RADFORD, UNITED STATES NAVY, CHAIRMAN, THE JOINT CHIEFS OF STAFF

Secretary Wilson. Mr. Chairman, perhaps we had better go ahead with the questions and see how our time goes, and I may think of something I would like to tell to the committee.

The CHAIRMAN. Very good. We will be glad to hear you.

Senator Mansfield, will you proceed with such questions as you may have; and some of the other Senators here, although they may have asked questions before, will probably have something else to ask. Perhaps the recent developments over on the Pentagon front might suggest some questions. [Laughter.]

Secretary Wilson. I hope not.

Senator Mansfield. Mr. Chairman, I do have some questions to ask both Secretary Wilson and Assistant Secretary McNeil, who did not get a chance to answer in public some of the questions which I raised yesterday, and which I think, for the record, should be answered and should be made public.

But, first, I will ask the Secretary some questions.

During your appearance before the committee in public session on May 14, 1956, Mr. Secretary, both you and Admiral Radford said that the United States is ahead of the Soviet Union in airpower, but you said you would prefer to go into detail and give the reasoning behind those statements in executive session. Would you care to do so now?

Secretary Wilson. Are you prepared to do that?

Admiral Radford. Yes, sir.

Secretary Wilson. I asked the admiral if he is prepared to do that.

Admiral Radford. Senator Mansfield, I would not like to have any record made of this. I am talking of agreed intelligence figures, and the type of briefing that I believe I have given to this committee annually before.

(Discussion off the record.)

# EFFECT ON MILITARY AID REQUEST OF RECENT EUROPEAN TROOP CUTBACKS AND SHIFTS

Senator Mansfield. Mr. Secretary, the estimate you made during your previous appearance of the number of foreign forces to be supported by the military aid program and expected to be in being in fiscal year 1957 has not changed since that program was made up in 1955. My question is this:

Would not the transfer of over 100,000 French troops to North Africa and the reduction of 50,000 in British forces announced last week, and a possible further decrease announced this morning as far as British forces in Germany were concerned, make possible a decrease in military aid appropriations to that part of the globe?

Mr. McGuire. Senator, we are giving no support in this program to the United Kingdom. There is nothing in here for the United

Kingdom.

Senator Mansfield. Any to France?

Mr. McGuire. Yes; there is some for France.

Mr. Gray. Sir, the support to France is not for additional buildup of ground troops, but largely for maintenance and ammunition, and that is what is referred to. The program with respect to France is substantially complete with respect to the equipping of ground troops.

Senator Mansfield. What is the aid being extended to it?

Secretary Wilson. I do not have the figures. I do not know whether you do. If you have, let's give them.

Senator Mansfield. Secretary Gray, could you furnish that an-

swer, or have one of your staff furnish it?

Mr. Gray. Yes, sir.

Secretary Wilson. I might point out, just as a matter of interest, that while the Korean war was on, we had divisions fighting in Korea that were earmarked for NATO, and it is not too different from the problem the French have on their hands right now.

Senator Mansfield. Where did those divisions come from?

Secretary Wilson. What divisions?

Senator Mansfield. You said you had divisions in Korea earmarked for NATO.

Secretary Wilson. That is right.

Senator Mansfield. We had at least three divisions in Germany and Austria at that time; perhaps more.

[Deleted.]

Secretary Wilson. Of course, the French are in to some degree the relative position, not a very satisfactory one; but that, as I just mentioned, is not new in the business.

Mr. McGuire. Colonel Critz has the details of the French program

which he would be glad to give you.

Senator Mansfield. Yes; could he, briefly?

[Deleted.]

Senator Mansfield. And there is no aid given to Great Britain under this category?

Colonel Critz. None this year; no, sir.

Senator Mansfield. None this year. All right.

#### NEW PRICING FORMULA

Now, in Secretary Gray's letter to the chairman, dated May 18, on mutual defense assistance program pricing, which was put into the record, it is stated that while the new pricing formula will enable MDAP to obtain a limited quantity of equipment at a lower price than heretofore, the savings which will develop will be insignificant in fiscal year 1957, and will accrue over a relatively long period of time. [See p. 67.]

Now, Mr. Secretary, would you have any objection to an amendment in the law providing that such savings shall be returned to the

 ${f Treasury\,?}$ 

Mr. Gray. Well, Senator, we would. First of all, as far as the time period referred to is concerned, if the authority is given to us under the law for the new pricing arrangements, it is going to take a very considerable amount of time to get out the detailed regulations and to adjust this thing to the many thousands of items which might be involved in it.

Certainly we would wish to come back before this committee and any other interested committee and report to you any savings which might accrue to the MDAP program as a result of the new pricing formula, and we would certainly consult with the committee as to what the result of any saving should be, sir.

Senator Mansfield. Mr. Secretary, would you say that it is a little

Senator Mansfield. Mr. Secretary, would you say that it is a little too soon to consider that now, but that perhaps next year, in view of the experience obtained, you might make that recommendation?

Mr. Gray. Yes, sir, we would prefer to deal with it in detail next

year when we see how we come out on it.

Mr. McGuire. Senator Mansfield, I would think our presentation next year would include a full report on what we had accomplished on the new pricing.

Senator Mansfield. I see.

Mr. McGuire. I do believe it is a little too early to set the ground rules, specifically, that you are proposing, until we know exactly what we are able to give to you.

Senator Mansfield. But in the meantime, Mr. McGuire, would you keep this committee informed as to the progress of this new formula?

Mr. McGuire. We would.

Mr. GRAY. Yes.

## FRENCH TRANSFER TO NORTH AFRICA OF EQUIPMENT AND SUPPLIES

Senator Mansfield. Now, Admiral, at the public hearing you said you would like to wait until executive session to explain how it serves United States interests to allow the French to transfer MDAP equipment and supplies designed for NATO defense to north Africa for combat against the nationalists.

[ Deleted.]

### COLLAPSE OF COLONIALISM AND RISE OF NATIONALISM

Secretary Wilson. I happened to read here, a few weeks ago, a statement by a writer who made the point that when the history of this decade we are living in is finally written, that the collapse of colonialism is likely to be found to have been a more important matter than the rise of communism. And the reason I just mentioned it is that one of the difficult problems we have to face is whether we sit by or help our friends through this difficult transition period.

Senator Mansfield. I think there is a great deal of merit in a statement of that sort, and it is especially so when you find colonialism either being allied with or infringed upon by communism, which is a

factor in all these areas.

Secretary Wilson. I might mention, too, that we thought it took about 50 years to educate the Filipinos to a point where they could run a government of their own. We tried to help them all we could.

We think it is pretty tough for some of these people who are freed

overnight to establish a free society and run it.

This rise of nationalism, this spirit of nationalism, is a powerful

thing in the world, and it has to be recognized.

Senator Wiley. I think that is true in the Russian colonies, too. Secretary Wilson. Well, it takes time to see how that works out. I am not quite as much worried about some of their economic activities as some other people are. I never could appraise the relative merits of the competitor until he got some dissatisfied customers.

### RUSSIAN EFFORTS

And I happen to think that the Russians cannot do three things at once: Build up a big, powerful military machine, and make it bigger and bigger all the time; raise the standard of living of their own people, and export capital. I would rather see them trying to export capital and raise the standard of living of their own people than build up a bigger and bigger military machine.

Senator Mansfield. You think in doing that they can bring about a greater degree of dissatisfaction, which would react to the benefit

of the free world?

Secretary Wilson. If they really start to raise the standard of living of their own people they will have to move their Communist government more and more and more toward the type of government we have in the free world.

Senator WILEY. We have increased our standard of living, exported capital, and built a military machine.

Secretary Wilson. Yes, but we had a pretty good start. I might say it is challenging our economy right now.

Senator WILEY. Sure.

## DETERMINING MILITARY ASSISTANCE NEEDS

Senator Mansfield. Mr. Secretary, how is it decided in the Government and in the Pentagon how much military production there must be to take care of MDAP needs, and what share of current military production shall go to MDAP? How does Secretary Gray, who is in charge of the military aid program, participate in decisions on these questions?

Secretary Wilson. We are trying very hard to get the thing set up better than it has been, so that the placement of orders for military assistance through the services in our country is properly handled, and

that they have proper priority for our own needs.

The priority problem is not so difficult now as it might have been earlier when we had the big buildup ourselves. But we generally have capacity throughout our country now to make almost anything we

need on reasonable notice, with a reasonable schedule.

You do not have to say that you cannot supply the equipment for the allies because we need it for our own stockpile requirements in this country, or that we have a war going on like we had in Korea. At the time of Korea, of course, that had to come first, but we do not have that problem now, and mostly it is just a problem of administration.

Senator Mansfield. What part does Secretary Gray, who is in direct charge of the military aid program, play in this particular matter?

Secretary Wilson. We try to solve our problems by getting the facts on the table, and mostly that does it. Reasonable men with a common objective, you know, in the presence of facts, do not have too much trouble in deciding what is the right thing to do.

But my door is always open, and if he is not getting a fair shake on anything, he, like any of the other Secretaries, can come in and tell me about it, and I will get the crowd together and we can get it straight-

ened out.

Senator Mansfield. I do not know that he is not getting a fair shake, Mr. Secretary. I am just asking the question because I had assumed that you had so many things to attend to that you put Secretary Gray in charge of the military aid program, with great authority. I was just trying to find out how much he participated in these discussions.

Secretary Wilson. Well, he has the authority that everybody else has in the Pentagon. They have enough authority to do the right thing, and they have not enough authority to do the wrong thing

and keep it up very long.

Senator Mansfield. Does the authority to make decisions rest with Secretary Gray, who consults with you and goes to you on questions of policy, and things of that sort?

Secretary Wilson. That is right.

Senator Mansfield. Now, Mr. Secretary, would you please elaborate a bit on how the \$3 billion request figure for military aid was reached, and would you indicate the extent to which Secretary Dulles and his representatives participated in the decision to ask for that much?

Secretary Wilson. I think the Defense Department, and I include both the civilians and military, had a great deal more to do with it than the State Department, in setting the figure for the military assistance part of it.

As to the economic assistance part of it, the State Department deter-

mined what that should be.

Senator Mansfield. In other words, as far as military aid is concerned, that is practically a 100 percent Department of Defense operation?

Mr. McGurre. I think that ought to be clarified, Senator. First of all, the requirements from the defense point of view emanate from the countries, and were worked out at the field level by what is known as the country team, which you are familiar with.

So we had the judgment of the economic and diplomatic representa-

tives tied in with the MAAG requests.

Now, when those requirements were reviewed in Washington, the

State Department and ICA participated in the reviews.

I think what Mr. Wilson meant to imply was that the basic handling of this program is done by the Military Department; but I would like to say, as the person most intimately concerned with the development of the military program, that we have had complete coordination all the way down the line with ICA and State.

Secretary Wilson. The final review of it and coordination of it is through the Joint Chiefs of Staff. You might speak to that point,

Admiral

Admiral Radford. The Joint Chiefs of Staff recommended the basic military aid programs that are in this. We took the information from the field and the unified commanders, and made a recommendation to the Secretary of Defense, which goes to Mr. Gray's office.

Secretary Wilson. I might tell you that it was a great deal higher to begin with than the final figures that the Chiefs of Staff said was

the minimum we ought to have.

Senator Mansfield. I understand that there is this coordination, this exchange of views between ICA and the State Department and the Defense Department. But I did understand, also, while the FOA was under Mr. Stassen, that even then the military had almost complete control of the defense aid program, and that is as it should be; and that since the creation of the ICA that that almost complete control has increased somewhat more.

I am not finding fault with it. I am just trying to bring out a fact which ought to be known, and that is that as far as military aid is concerned, that is the prerogative of the Department of Defense, and they are almost in complete charge except for coordination and

exchange of views.

Mr. McGuire. The only point I want to add to what the Secretary said, Senator Mansfield, is that we do consider and are aware of the economic and political factors. We do not operate in a vacuum.

Senator Mansfield. No, I did not mean to imply that, because

there is that coordination.

Mr. McGuire. I wanted to be sure.

Senator Mansfield. There is one more question I would like to ask.

#### EFFECT ON INDIA OF MILITARY AID PROGRAM WITH PAKISTAN

During the public session on May 14, Mr. Secretary, you said that you were embarrassed to evaluate in public session the military aid program for Pakistan and its effect on India?

Would you care to do so now?

Secretary Wilson. The Admiral has been on a trip over there not so very long ago, and I think perhaps he can do a little better than I can.

Senator Mansfield. All right.

[Deleted.]

Senator Mansfield. Mr. Chairman, I have some other questions that I would like to ask of Secretary McNeil, but I think as long as we have the Chairman of the Joint Chiefs and the Secretary of Defense here, I will defer those questions until the rest of the committee has had a chance to question them, if they so desire.

The CHARMAN. Gentlemen?

Senator Smith. I would like to ask one question, if I may, Mr. Chairman.

# DETERMINING MILITARY NEEDS

I would like to ask this question of both the Secretary and Admiral Radford. From what you said about the participation of the Joint Chiefs of Staff in this setup for military assistance, I assume that they went very carefully over the figures in arriving at the total of \$3 billion; is that correct?

Admiral Radford. That is correct; yes, sir.

Secretary Wilson. As a matter of fact, they were just a little over \$3 billion, and I said, "I think we can find another \$47 million," and we made it 3, so it is down a little bit.

Admiral Radford. The basic military-aid programs are worked up

by the Joint Chiefs of Staff.

#### EFFECT OF A BILLION DOLLAR CUT IN MILITARY AID

Senator SMITH. Then I would like to ask you this question: I have just been advised that the House Committee on Foreign Affairs has reported their version of this bill to the House, cutting \$1 billion from the military end of the program; and I would like to get the benefit of your judgment for our committee on the effect of a cut like that on the overall military plan for the foreign assistance program.

Admiral Radford. Well, I would say, Senator, that it would necessitate a complete restudy of the whole program, and will have a serious impact on our ability to carry out our commitments around the

world.

The program this year, with the exception of the new-weapons program, is essentially a maintenance program; maintenance of previous programs, that is, of the equipment we have delivered, plus delivery of some additional equipment.

A cut of a billion dollars in that will have serious implications for us all around the world, and particularly in the Far East and in the

Middle East.

Senator SMITH. Would that not have serious repercussions on our situation in Korea, for example, which we discussed this morning; in Formosa, where we have the problem of danger before us constantly; and in Indochina, where we are not sure what is going to happen?

I mean in those three focal points of great danger, would not a cut

of this kind on our foreign military assistance be very serious?

Admiral Radford. Secretary Gray can check me on this, but as I recall it, nearly \$1.7 billion of this total is related to our programs in Korea, Formosa, Indochina, Pakistan.

Mr. McGuire. It is \$1.5, Admiral.

Admiral Radford. Yes; \$1.5.

Mr. Gray. And Turkey.

Admiral Radford. And Turkey.

#### MILITARY ASSISTANCE PROGRAM IN KOREA

In other words, those programs—in Korea, for instance, we have

an armistice. [Deleted.]

We have been, by the restriction of the armistice, unable to supply them with any new equipment. In other words, we have to supply

the same kind of equipment they had.

Until there is some settlement of the Korean problem, this country is obligated to continue its full support of the Korean armed forces. I mean it would cause great consternation in South Korea if we backed away from maintenance of that defensive army.

Senator Willey. How long will it take to get rid of what is in the

pipeline?

Admiral Radford. We don't have any large equipment pipeline going to Korea. Those troops are equipped, and this bill provides the maintenance of their equipment, spare parts, and so on to keep them going. In Korea, Senator, as you know, we have an active military, front. We have over a million men that are divided by a deneutralized zone of about 5 kilometers.

They are ready to fight in about 5 minutes, all along the front. The pipeline is for supplies and spare parts to keep the equipment they

have in operating condition.

Secretary Wilson. It is even worse than that. Some of it is the support and feeding of the troops themselves, and the pipeline on eating is not so long, you know.

Admiral Radford. In Turkey, as you know, the Turks are unable to maintain the forces which they have without considerable assistance.

[Deleted.]

We have a considerable program in south Vietnam, where we are helping them build up forces for internal security with some capability

for resisting aggression.

We also have in Taiwan a considerable program. Now, as Mr. McGuire says, this figure for these countries is \$1.5 billion. In other words, half of the total of the requested authorization is restricted to those countries.

So if you took off a billion dollars, we would have to make adjust-

ments in that area of considerable magnitude.

Secretary Wilson. I was informed about the House action just before I came over here, and I immediately thought of it in terms of—that is a third off. It would be just about as disorganizing in connec-

tion with our military assistance program as though you took a third off of our budget here pretty fast. That would be pretty tough, and it would make a complete reorganization of our services necessary.

So a big change like that is always a very difficult thing to handle. No one can say, within the last 2 or 3 percent in this kind of thing, that you are absolutely sure about your figures; but you cannot take one like this without a big problem on your hands.

# UNOBLIGATED FUNDS AS OF JUNE 30

Senator WILEY. Will you have all that has been appropriated committed by July 1?

Mr. McGuire. I wonder if I could answer that question, Mr. Sec-

retary.

Senator Wiley. Yes. I have in mind, because we are all practical men, whether the House Foreign Affairs Committee took into consideration the element of transferability of funds.

Mr. McGuire. I was, of course, not at the meeting of the House committee, Senator, but I suspect transferability was not taken into

consideration.

In answer to your question on the commitment of the funds, we now estimate—and this estimate was made as of yesterday or late last night—that as of June 30, 1956, we will have unobligated approximately \$200 million.

When we made these books up, we then estimated it would be around

\$295 million.

Of the \$200 million which will remain unobligated, we are recommending that \$28.9 million not be carried forward. Against the \$200 million, there are requirements of approximately \$165 million, valid programing requirements.

If those funds expire, we in effect have a cut of an additional \$165

million.

The \$28.9 million includes the things that I call seasonal; the types of things that must be done in season or not at all. An example might might be a meal that was not supplied last week. There is no point in supplying it as an extra meal next week. That is, of course, an oversimplified explanation of it.

Senator Wiley. How much between now and the 1st of July—you have more than a month, as you have all of June—is there that is not committed and which might be transferred or might be utilized to take up some of this cut that the House committee has in mind?

These are not questions which are asked facetiously, but the American people are asking the questions and the House committee is react-

ing to public opinion; no question about that.

Consequently, are we using our funds to the best advantage? Is there anywhere, because of changed facts in the world situation, that funds could be transferred or be utilized for other things?

That is the import of my question.

Mr. McGuire. I believe we are using our funds properly, sir. We have found savings of about \$100 million of the funds appropriated up to now—I am not considering the 1957 program. This has been done by either funding in advance things that we have of a very high priority in the 1957 program and scheduling them in fiscal year 1956; by repricing actions, and by other things of that nature.

As to the balance of the current-year program, that is, May and June, we have a limitation as to what we can obligate in the months of May and June; the figure is roughly \$211 million, but we have valid requirements for the entire amount.

Secretary Wilson. You are wondering if there is anything in the order of a billion dollars, if it is hanging out there, if we could handle with the new program. Mr. McGuire is saying it is of the order of \$100 million or so that is involved; not a billion.

Mr. McGuire. I said there were about \$200 million that we estimate would be unobligated. Of the \$200 million that will be unobligated, there is a valid program requirement for all except \$28.9 million, which represents types of items which I consider to be seasonal, and should not be funded. We are recommending that the amount of \$28.9 million be allowed to lapse, that is, not carried forward.

Senator Wiley. It seems to me that at one time the funds for maintaining the troops in Korea came from our regular military appro-

priations; is that right?

Mr. McGuire. That is correct.

Senator Wiley. Is that possible now?

Mr. McGuire. No.

Secretary Wilson. No.

Admiral Radford. It was changed 1 July 1954.

Secretary Wilson. While the war was on, you see, we did not-

#### EFFECTS OF A BILLION DOLLAR CUT IN MILITARY AID

The CHAIRMAN. If there is \$1 billion that the House committee is supposed to be cutting off, is it all off the military item?

Mr. McGuire. That is correct, sir.

Secretary Wilson. Military.

They are taking another \$200 million from the Asian fund and the Middle East fund. I suppose that is the economic part.

Mr. McGuire. That is economic aid.

There is another point I think this committee should be made aware of; the effect of a \$1 billion cut is not made against \$3 billion; it is made against about \$2.7 billion. The difference between the \$2.7 billion and \$3 billion are those things that are fixed, such as the infrastructure program, which a cut will not change.

We have a continuing program for infrastructure which can't be

cut.

Admiral Radford. It is an international commitment.

Mr. McGurre. That is right. There is about \$300 million you can't cut.

If you take a cut of \$1 billion, you apply it against a total of \$2.7 billion rather than \$3 billion, so it is more than one-third.

## REASONS FOR HOUSE COMMITTEE'S ACTION ON BILLION-DOLLAR CUT

The CHAIRMAN. Have you found out what the rationale of the cut was, the reason for the House committee's action? Do you know on what they based the cut?

Secretary Wilson. I don't know, but I think I have a good idea what it is based on. It is based on the fact that a good many people in our country feel that military assistance is something that we are just doing for the other folks, just as you give something to charity; you

make up your mind not to do it any more.

It is not that kind of a thing. But, unfortunately, apparently a good many people seem to have that feeling about it. You men know more about that than I do, because you are closer to your constituents and the people in your States.

But failure to appreciate it, and thinking of it in the form of a giveaway business, is the real basic trouble with it, I think, myself, without having gone into the detail or talking to any of the Congressmen

about it.

But I want to assure you that it is trouble.

Admiral Radford. Could I make a statement, Mr. Secretary?

#### EFFECTS OF A BILLION DOLLAR CUT IN MILITARY AID

This is the first intimation that I have had that a cut of that magnitude has been made, and I think its impact on our military position all around the world will be assessable. In other words, we can give the committee pretty definite assurance after we study it, that the

impact on our foreign relations is going to be terrific.

We are supporting those troops in many cases because we are getting extra security from them. In other words, if we did not have them, if we did not generate these indigenous forces, we might even have to employ Americans in those same places. It would certainly cost us much more to do that, and the additional costs would be reflected in the regular defense budget.

In other words, this program is really for the benefit of the United States of America against the Communist threat, and how we can go around to these countries and explain or rationalize a cut of this magnitude is just beyond my comprehension. I just don't see how

we can do it.

The military men in these countries have the same problems that we do. They have to plan in advance, and from our announced policies they have a right to assume that we will have some good, logical reason before radically reducing our military programs, and not just come along and say, "Everything has changed, and we will cut it down."

In order to maintain the standing of the United States, we must be able to give logical reasons for our actions, and in this case I don't think we can, especially in these times and with the world situation

as it is.

I can but express my very strong feelings that a \$1 billion cut

would be a very grave mistake.

Senator Willey Let's put it this way: Suppose that the bill were passed with a \$1 billion cut. In your opinion, do you think that would be an invitation to the Communists in North Korea to move south? And, if they did, how long would it take us to spend \$1 billion? [Deleted.]

Secretary Wilson. I, myself, have been looking forward to the day—I don't know just when it might be—when we could bring a few

more of our boys back home.

This kind of a move is in just the opposite direction from that. If the thing had lessened a little or we could make any moves, that would be the first one we ought to make, and not the stopping of dollars with which we can get more men in uniform on the ground.

[Deleted.]

In other words, the advantage to our country of these \$3 billion, so far as I am concerned, is that they are better spent where we plan on spending them than if we tried to build our own outfit up bigger.

Senator Smith. Is it not true, Mr. Secretary, that during this last year we practically made a completely new study of our military aid in these countries? I remember the Secretary appeared before us last year, and stated that we were making a new approach and studying the program to see whether there were any dollars that could be saved.

And the figures you give us now are the result of that year's study, and you are cutting down wherever you can in every particular. When you testified previously, you made it perfectly clear that the \$3 billion

figure included the \$500 million-odd of new types of weapons.

Admiral Radford. Yes, sir.

Senator Smith. So that your figure was back, as you said a moment ago, to \$2.5 billion—a figure comparable to figures in previous years; am I right in that?

# NEW WEAPONS FOR NATO

Admiral Radford. That is right, and there is the other roughly \$300 million of fixed expenses that have to be taken off that. So you are actually talking about cutting \$1 billion from \$2.2 billion. Now, the new weapons for NATO is something we want over there; we all want it. It is something that requires several years lead time. It is not something we will deliver next year, but we have to get the money from Congress before we can start producing these new weapons to help modernize the NATO forces, improve their air defense over there.

#### IMPACT OF A BILLION-DOLLAR CUT

The impact of a reduction of this magnitude is so important and so complicated and so adverse to the interests of the United States. This whole program is one where we have the greatest interest in many cases. We are getting people to do things for us. It is not one-sided.

Senator SMITH. Of course, as the Secretary said, the people back home keep asking "Why do we have to continue this program—when are we going to get tax relief?" I have had to go back to the people in my State with the kind of arguments you are making now, and I have done it right along.

And after you get it across to them, they see the security angle; that it is not just a hand-out. The security of our own country is involved.

Admiral Radford. It is our own self-interest. If we do not do this, we will wind up with more American boys overseas.

Senator Sparkman. Will the Senator yield to me?

Senator Smith. I am through.

Senator Sparkman. I would like to ask a few questions, Mr. Chairman.

Admiral, I think you are exactly right, and I think your point is well taken. I do not believe there has been enough emphasis in the past on the fact that what we are doing here is not primarily helping those countries to build their own defenses, but we are building and maintaining our own defenses.

# QUESTION OF MILITARY AID BEING REQUESTED IN REGULAR DEFENSE DEPARTMENT APPROPRIATIONS

Now, I wonder, though, if we would not be better off psychologically if these funds were carried in our regular Defense budget rather than in a program which carries the wording "Foreign Aid."

Admiral Radford. Is that a question to me, Senator?

Senator Sparkman. Yes. Admiral Radford. I have stated before that as far as I am concerned, we can work with any system that the Congress decides they want us to work with.

Secretary Wilson. Except that we can't work without money.

[Laughter.]

Admiral Radford. Where the appropriation is carried is not as

important as having continuity.

There are certain advantages in the present arrangement, which was very much improved, from the defense standpoint, when we got this division of the authority so that the Defense Department now does

run the military part of it.

We have very close cooperation with ICA in connection with defense support and other programs in these countries, but if it is necessary to justify the appropriation as part of the military expenditures of the United States in order to get it, then I am in favor of doing that. [Deleted.]

#### FIXED CHARGES

Senator Mansfield. Admiral, did I understand you to say there is a \$300 million fixed charge against infrastructure?

Admiral RADFORD. No; it is not all infrastructure.

Mr. McGuire. No. I used infrastructure as an example of one of the elements in the fixed charges.

Admiral Radford. The infrastructure figure is about \$120 million. Mr. McGuire. There is, to be exact, \$255 million in the program.

Included in that, there is the infrastructure element; there is the international headquarters; there is the element of packing, handling, and

crating, which is a charge fixed against deliveries.

In other words, if we are going to spend that money on what we deliver, cutting this year's new obligation authority will not cut the packing, handling and crating and transportation charges. That will have to be spent, if we are going to make deliveries.

Senator Mansfield. The reason I asked the question is that hereto-

fore we have had infrastructure under a separate item, I believe.

Mr. McGuire. It is under a separate item.

Senator Mansfield. It is?

Mr. McGuire. I only used it, Senator, to explain all of the types of things which normally would not be subject to a cut. The individual elements total about \$255 million.

Senator Mansfield. That is, regardless of what happens in the way of a reduction of expenditures, that amount would have to be paid?

Mr. McGuire. That is right.

Senator Fulbright. May I ask a question, Mr. Chairman? The CHAIRMAN. Yes, Senator Fulbright.

# REASONS FOR INCREASED MILITARY AID REQUEST

Senator Fulbright. Admiral, even with a billion-dollar cut, the amount for military aid would still be twice this year what it was for last year. You had only \$705 million last year, and now you are asking for \$3 billion. If we cut it to \$2 billion, why would that be so terrible, when you could say you got twice as much as you did last

Admiral Radford. It just does not work that way, Senator. have been working off a backlog, and I am sure this committee was informed 2 years ago that we could not continue the same program indefinitely on these reduced appropriations. We had very small appropriations in 1954 and 1955, and now we finally have reached the point where we have to have an increased authorization in order to maintain the program.

Senator Fulbright. How much last year did this Congress cut your request for military funds? Was your request substantially reduced?

Secretary Wilson. I think so.

Admiral Radford. We were actually working on the tremendous amounts of money appropriated by the Congress in 1950, 1951, and Those were to a large extent for the NATO programs which we have now worked off the books.

Generally speaking, we are now down to maintenance, except for

new weapons.

In the meantime, we have added the Korean expenditures to the military-aid program. During the war these were carried in the Defense Department budget. That becomes almost a fixture and we have to get annual funds to maintain these large forces.

As I pointed out, a billion and a half is in the few country pro-

grams, Korea, Taiwan, Indochina, Pakistan, and Turkey. Senator Fulbright. How much did you request last year?

Admiral Radford. What did we ask for?

Mr. McGuire. It was \$1.4 billion, which did not include direct forces support.

Senator Fulbright. I cannot understand what has happened on the

international scene that requires such a large military increase.

Secretary Wilson. We have the problem all the time of explaining three different sets of figures: One, how much are you going to spend—the cash drain on the Treasury? Second, how much new money or new credit in the bank are you asking the Congress for? And, third, what is your program?

They are three different sets of figures, and we get confused over

them all the time.

We had, even last year, some more credit in the bank, so to speak. It is what we call unobligated, carryover funds.

We had in mind, using them for something, but we did not have to,

to make the commitment by a certain date.

So we have been working for 3 years. We have been working down that big credit in the bank that we didn't have to spend. The big credit in the bank was put in there, to begin with, to get these allies to go along with us and to make it clear to them that we were with them in the defense of the free world.

What we are doing right now is creating just the reverse of the psychological impression that was created 4 or 5 years ago or more,

and what we are trying to say now is that we have lived on the fat

as long as we can.

And as to your question, Senator Wiley, of how much we had if we could still kick the bookkeeping around, we have just about finished up that job. There is only \$100 million, or whatever you want to argue about it, that might be left there—and we can't be absolutely sure what it is until we get the figures at the end of the year—but it is not in the hundreds of millions or billions like it was.

Mr. McGuire. Senator, I would like to point out to you that last year in the figure you are using for comparison, the direct forces support figure which last year was included under what was the old FOA operation, was in their budget; so that to the \$1.2 billion, you would have to add that amount—which amounted to \$317 million.

In our figure of \$3 billion this year, there is \$387 million of direct

forces support—in making that comparison.

Senator Fulbright. I would like to take one specific country and see if I can understand how you arrive at this figure.

#### MILITARY AID TO PAKISTAN

How did you arrive at the figure needed in Pakistan this year?

Admiral Radford. I could not answer that in detail without going to the book. [Deleted.]

The Pakistanis had some British equipment. They are lacking

other equipment, and we agreed that we would furnish it.

We also have agreed that we would support the return of certain additional numbers of men to fill out supporting units which they were not financially able to do. [Deleted.]

Senator Fulbright. What would you say is the objective of the military program in Pakistan? What do you hope to achieve by

that, Admiral?

Admiral Radford. Well, we generate forces that can be used in the free world in conjunction with American mobile air and sea power.

[Deleted.]

Mr. Senator, the Pakistan Army is one of the finest armies in the world. It had World War II combat experience. It has excellent officers and fine noncommissioned officers, and Pakistan is one of the few countries which does not have a reenlistment problem. People come into the army and make a career of it. [Deleted.]

Senator WILEY. How many men make up the divisions?

Admiral Radford. I do not know what the size of their division is.

They vary. [Deleted.]

But if we had an invasion in the Middle East by the Russians, the Pakistani troops would undoubtedly be an important part of the defensive force in that area.

# EMPHASIS ON MILITARY AID QUESTIONED

Senator Fulbright. Well, it goes to the further question—I do not think I made it quite clear—of the probabilities which you are dealing with. No one knows whether overt military aggression or political infiltration will occur in this area. It looks more like political infiltration. [Deleted.]

A lot of people believe, and I imagine they do in the House, that, perhaps, it would be a little wiser and better for our security if a little more money went for economic aid and a little less for military. Is that not a possible explanation?

Admiral Radford. It may be.

Senator Fulbright. If you build up a fine army somewhere and the next election in that country goes against us, the army is not for us but for somebody else to use.

Admiral Kadford. Well, it is always the risk that you take.

Senator Fulbright. And it could be that this program that is so

heavily in the military does encourage that. [Deleted.]

Secretary Wilson. The Pakistanis in recent years have had substantial assistance in the economic field. I know at one time we sent them a lot of wheat, and we have done quite a lot to help them out.

You see, they used to rely on Britain in one way or another for their

military assistance and their overall well-being.

The ones that I have met are good people, and they think all right; they are not Communists at all. They have a great pride of nationalism in their country and if they were invaded, they would fight

and they would fight for their neighbors, too.

Senator Fulbright. We read, at least, that all of these countries are becoming quite neutralist in their attitude toward the controversy or struggle between Russia and this country. I think the real question in my mind, and I believe it is in others', is whether or not this program is properly balanced between military aid and nonmilitary aid, in view of the circumstances as we see them.

#### EFFECT ON MUTUAL SECURITY PROGRAM OF SHIFT IN COMMUNIST TACTICS

Of course, all programs have to be set up long in advance. That is the necessary procedure. It has been said here in these hearings that these programs were started many, many months ago, I guess in the field; that is, you asked for estimates from the people in the field and so on.

I think the question that troubles a lot of people at the moment is whether or not this program is really designed to meet the situation that confronts us at this time, and not the situation a year ago. I believe we ought to have a little more light on that matter.

Secretary Wilson. Well, my own opinion, for what it might be worth, is that the situation has not changed fundamentally enough so that we can appraise a change. I am talking realistically now about

some of the recent moves of the Russians.

But to ask us to move too fast in cutting down our military power, while they have made certain kind of moves, when we know full well in other areas they have not, and when we are not very conscious that they have done much to heal the sore spots in the world, and we think that this is the right thing to do for the country right now, as we see it.

I have not yet heard any American taking a very strong position that the Russians can be trusted from now on, and that we want to cut the

thing down; at least I cannot appraise it that way yet.

I am sort of hopeful about it. I would be very much more worried if the Russians just announced they were going to increase their forces by 1.2 million men. That would bother me no end.

Senator Fulbright. Well, of course, they are not really, I think, decreasing the danger at all; it is shifting.

A lot of people think the shift into the nonmilitary activities is

more dangerous.

We had testimony this morning from the State Department about the Russians' offer in Burma to build technological institutes and man them with their own people.

It would be a very dangerous thing, I would think, from our point of view, but it is nonmilitary, and they are increasing that kind of

activity.

I do not believe, myself, that is decreasing the danger, but it is shifting the attack, so to speak, from one area to another. They certainly are not decreasing, I think, the overall effort, but they are apparently shifting to high gear in the fields of economic, culture, and other kinds of infiltration-I do not know what you would call it.

This morning's paper says Russia sent two modern oil-drilling rigs to India. I do not know whether they gave them to the Indians or not. It is that type of thing I am talking about. It is a rather

dangerous tack.

Now, the ultimate decision, if there is no war, is political, and if we lose the political battle, it is just as disastrous to us as it is for us to lose a military one.

Admiral RADFORD. Not quite.

Senator Fulbright. But it is over in that area. Here at home is where it is disastrous if we lose a military battle, but if we lose those countries and they go communistic, whether as a result of military or political infiltration, they are lost to us.

Admiral Radford. It makes it that much tougher for us in the long

min.

Senator Fulbright. I think sometimes we go entirely too far on following some doctrinaire policy.

I am not at all sure I like putting all our eggs in the military basket

and letting the rest go, even in Pakistan.

Secretary Wilson. Well, in the total it is not that. Our military part of it was \$3 billion; the economic part of it is not quite \$2 billion.

Senator Fulbright. Well, the testimony the other day was that 85

percent of this is military, and 15 percent is nonmilitary. Mr. Gray. May I speak to that point, Mr. Wilson?

Senator Fulbright. The Secretary of State said that.

Mr. Gray. Yes, sir.

Secretary Wilson. They are tied together in this sense, that we are a little slower to give economic assistance to people who are not on our I do not see much wrong with that myself.

Senator Fulbright. Well, I do not know.

The CHAIRMAN. Any further questions? Senator Fulbright. Maybe we ought to try to get them on our side. [Deleted.]

The CHAIRMAN. Are there any other questions?

#### ARMED SERVICES RIVALRIES

Senator Wiley. I would like to ask another question that has been troubling me. Before I came to the hearing, I read the headlines in

the newspaper about the apparent scrapping among the three services. Now, does that go to the question of failure to collaborate in relation to spending money?

Secretary Wilson. Well, I think I summed it up by saying that

some eager beavers cut down the wrong trees.

Senator WILEY. I saw that.

Secretary Wilson. Well, that is about as good an overall explanation as you can make of it. There are just so many people who got on the loose with their own ideas, and it is not the way to run a big outfit.

Senator Wiley. I was in Belgium several years ago and when I went back there again, I noticed that the big transport planes were still grounded on the same field where they had been previously, and I wrote you about it. I was wondering whether that, itself, was a symptom of lack of cooperation in preserving the property that was still there, these great big transport planes?

It is not for me to say that I know enough more about military

techniques than any of you, but it is for me to see whether or not we can bring into the picture something that might create a saving and you know, Secretary Wilson, very well in your own business that when

departments do not collaborate that there is waste.

So it occurred to me that perhaps the House committee itself, in talking about a billion dollar cut, has had a number of instances called to its attention, like I, myself, called to your attention in referring to these great big planes sitting idly on the same field year after year.

To me, some of those things, Mr. Secretary, undoubtedly affect

the mind of the voter whose views are, in turn, reflected by his Repre-

sentatives in Congress.

So, my basic question is whether or not these interservice conflicts result in waste or there is real collaboration between the services so that waste can be eliminated?

Secretary Wilson. Well, there is no question that you can improve the big defense effort of the country, and we have made great strides in improving it, in saving money.

You have to look out that you do not get a worm's eye view of some

of the things, and draw the wrong conclusions.

If you had seen some big guns on a base, just because they were not

firing, you would not say that everything was being wasted.

Sometimes we have planes available in an emergency to do certain things that you would have to do but I would never take the position that we cannot make some improvements in the efficiency with which

we carry out our programs.

However, I find that we are lucky if the improvements in savings we could make offset the added costs we have run into in pay, in material, and all that kind of thing. We are struggling to do better all the time in carrying out the programs and I am always appreciative of any help I can get in the matter.

I, myself, think it is most unfortunate that we have this kind of a controversy going on because it is confusing to the public and to

you, gentlemen, and I do not like any part of it.

But the other side of it is if I try to be a censor and say that the boys cannot talk, and they get plenty of encouragement to talk from all kinds of sources, and some would like to be a big potato for a day and then go make a smash-I think it is going to get better very shortly.

Senator WILEY. Is there a true balance between the service branches, or do you think each one is fighting for his own and has to maintain

what he thinks is the big end of the stick?

Secretary Wilson. A certain amount of that is all right up to a point, but then when the facts indicate something different, and we make a decision, why, everybody ought to go ahead with it.

The CHAIRMAN. Any further questions?

Senator Mansfield. Mr. Chairman, I asked some questions yester-day which I think Mr. McNeil should have the right to answer and I would like that his answers be made public because they are certainly not secret or confidential.

I made my statements publicly, and I think he is entitled to a public

answer.

I have no questions to ask of the admiral or Secretary Wilson. My questions only have to deal with Mr. McNeil.

Senator LANGER. I would like to ask one question of these two

gentlemen, here.

The CHAIRMAN. Yes, Senator.

Senator Langer. You do not have to answer unless you want to, and I want this off the record.

The CHAIRMAN. Off the record.

[Discussion off the record.]

Senator LANGER. No other questions.

The CHAIRMAN. Senator Mansfield, did you wish to ask Mr. McNeil a question?

Senator Mansfield. Yes.

#### USE BY DEFENSE DEPARTMENT OF CERTAIN FUNDS

Secretary Wilson. Are you going to ask him about this \$400 million business?

Senator Mansfield. Yes; part of it.

Secretary Wilson. I would like to make a statement about that, because I am a little touchy about the Defense Department being accused of doing something unlawful and I would just like to say that no one stole any of the money, as far as any of us can find. None of it was wasted and nobody was purposely deceived. It gets into one of these questions of technical bookkeeping partly due to some of the congressional actions where, you know, you try to make them retroactive and it is almost like trying to make birth control retroactive; you cannot do it. [Laughter.]

So, perhaps, we could have done better but I would like to turn it over to Mr. McNeil, and explain it through him, because we did not purposely do anything wrong, and we did not waste the money. It is

just a question of how we accounted for what we did.

Senator Mansfield. Mr. Secretary, I think that you are assuming something that the committee had not assumed. We do not think it was stolen or pocketed or wasted, but that perhaps this money might have been used in the succeeding fiscal year instead of being returned to the Treasury.

I think, though, that Mr. Campbell pointed out that \$225 million of this was accounted for in a reasonable and legal manner, but that \$175 million was, so to speak, put in the kitty for the next fiscal year

and spent on projects.

Secretary Wilson. The reason I brought it up was because I read in the paper, and if I were just an ordinary citizen and did not know anything about it, I would think that, well, the Defense Department did not know what it was doing and must have wasted all of this money or something like that.

When you are accused of doing something unlawful, most people think it is some kind of a crime against society; you have either stolen it, or wasted it, or something, and I did not like it. So I just thought

I would mention it.

Senator Mansfield. I am glad you did but I am sure that Mr. Mc-

Neil will be able to give a logical explanation.

I am more interested in the \$1,300 million which you had in May of 1955, and of which something between \$600 million and \$700 million was spent in the last 5 hours of the last day of the last month of the fiscal year, which seems to me to be a pretty speedy way of spending money just before the deadline.

Secretary Wilson. Well, that is an accounting bookkeeping busi-

ness, too.

The CHAIRMAN. You have no objections to the Secretary's remain-

ing here?

Senator Mansfield. No; I would be delighted to have him stay if

he wants, if he has the time.

Secretary Wilson. I have a couple of other projects, and with those words I would like to go with the Admiral, and go about some other part of our business.

The CHAIRMAN. We thank you very much, Mr. Secretary, for com-

ing over today and giving us a chance to talk with you.

All right, Senator Mansfield, you may go ahead.

Senator Mansfield. Mr. Chairman, although we are in executive session, I would like to make the request that the questions asked by me and the answers given by Mr. McNeil be made a part of the public record. I am sure there will be nothing secret or confidential said, and if there is Mr. McNeil can notify us.

Mr. McNeil. Yes.

The CHAIRMAN. He can indicate it, Senator Mansfield, and also unless there is an indication, Mr. McNeil, you will understand that you will be examined for the public record now.

Mr. McNeil. All right, sir.

# STATEMENT OF W. J. McNEIL, ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER); ACCOMPANIED BY MARKLEY SHAW, COMPTROLLER, INTERNATIONAL SECURITY AFFAIRS

Senator Mansfield. I think Mr. McNeil has a pretty good idea of the questions I have in mind.

#### LAST-MINUTE OBLIGATIONS OF FUNDS

On yesterday I brought to the attention of the Comptroller General of the United States the statement that during the last 5 hours of the last fiscal day of June 1955, \$674 million was reserved or obligated, and that during the month of June \$983 million, nearly \$1 billion, had been obligated or reserved.

Now, as I recall the debate on this bill last year, the final figure which came up was \$1.3 billion, which was found not to have been

obligated or reserved until the last month.

If my memory serves me correctly, the appropriations committee found in addition, around \$66 million, unobligated until the last minute, which had been appropriated for the Air Force in 1951 or 1952, and had for some reason or other been forgotten.

Mr. McNeil. What was that last amount, sir?

Senator Mansfreed. I think about \$66 million—I would have to go to the record to find that—but they uncovered that amount in

the Appropriations Committee.

Would you care to answer this question: Why were these funds allocated in the last hours of the last day of the last fiscal year? How could they be allocated on a sound businesslike basis, and as they were allocated or reserved, were they deobligated or dereserved at the beginning of the present fiscal year?

Senator Wiley. Do you mean that within those few hours that

amount was obligated, in other words, contracted firmly for?

Senator Mansfield. That is the statement made by Senator Ellender, a member of the Senate Appropriations Committee, during debate on the floor of the Senate, and I feel certain that Mr. McNeil read those remarks.

Mr. McNen. Well, Mr. Chairman and Senator Mansfield, I will probably have to get some assistance from the people who have

certain of those records.

Senator Mansfield. All right.

Mr. McNeil. Yesterday there were also 2 other major points, and if I may raise those points that you questioned, and discuss them, and then can come to the point of the obligation of certain sums of June 30, I will be answering 3 questions that I believe were raised by Senator Mansfield vesterday?

Senator Mansfield yesterday?
Senator Mansfield. Mr. McNeil, may I make a correction right

now? I find on July 20 last year I made this statement:

During the months of April, May, and June 1955, the Department of Defense obligated, according to the best estimates I have been able to get, at least \$1.9 billion, more than one-half of the sum of \$3.3 billion available in fiscal 1955 for obligation. Nine hundred and thirty-two million dollars was obligated in the last month, and of that amount \$614 million was obligated in the last 24 hours.

And that is the figure, I think, that Senator Ellender raised to

something like \$674 million.

Mr. McNeil. Well, yesterday, sir, the Comptroller General mentioned, in effect, two items which were basic points which were raised. I think Senator Mansfield's questions were necessary and proper.

First, the Comptroller General mentioned the \$400 million item that he said had been carried over improperly, in violation of a certain

act.

Next, he indicated or implied that we were not fully disclosing the amounts of obligational authority provided for each of the regular military appropriations where they were associated with military assistance.

I should like, first, if I may, to outline the situation which we have

endeavored for the last several years to correct.

First, when the military assistance program was initiated, back in 1949 and 1950, it attempted to operate under the regular laws that pertained to other types of financial operations in the Government.

#### PROCUREMENT PROCEDURES

The military services were, in effect, the agents to procure; and if, for example, military assistance program would order 100 tanks, and the Department of the Army ordered 100 tanks, they would combine the order in an endeavor to place the contract for 200 tanks, a very proper procedure.

But tanks are not bought as tanks. You buy the pieces.

You contract with one company or several companies for tank treads. You will contract with another company for casting the turrets; with others for the fire control.

So, really what I want to emphasize is that you buy the different

segments or components of the tanks under different contracts.

Aircraft are not bought as complete aircraft, such as automobiles

are bought from a dealer's showroom.

You buy the engines separately; you buy the airframes separately; you even buy the tires a couple of years later, just before you get

delivery of the aircraft.

For example, when different contracts were placed by the Army for these different components, no one knew, no accounting process could possibly identify, the progress payments on tank treads which would go into a tank that eventually went to military assistance or to the Army or to the Marine Corps. It just is not possible.

Yet an effort was made by the Army, Navy, and Air Force, because

that is what the rules really called for.

As a result, tank treads, paid for by military assistance money were

included in tanks delivered to the Army which went to Korea.

Tank treads paid for from Army money went into tanks that were delivered to military assistance. That is the kind of situation we had. We endeavored, on our own initiative, to clear up this condition.

#### SECTION 110 OF MILITARY ASSISTANCE ACT OF 1955

In 1953 we proposed a plan to the Congress. The Senate passed the necessary language in 1953, which would have eliminated the impossible job of segregating the costs and virtually put the business on a c. o. d. basis.

Senator Smith. That was not in our military assistance legislation;

that was separate legislation.

Mr. McNeil. It was separate, in our Defense Appropriation Act for 1954.

However, because of lack of agreement in the administration, and different views expressed, and Congress approaching adjournment,

the provision was eliminated in conference.

The conferees, however, having been made aware of this problem, did ask that a study be made by the General Accounting Office, Bureau of the Budget, ourselves, and FOA to see if they could come up with a plan.

One year later a plan was submitted to the Congress, and that is the provision which currently governs. It was section 110 of the Mutual Security Appropriation Act of 1955.

I want to say that the legislation that was provided by the Congress

at that time, I think, is excellent and is commencing to work.

But the headaches in cleaning up the old mess, and it was nothing

but a mess, have been terrific.

In the meantime, Congress passed other legislation which, I think, is excellent and long, long overdue.

# DEFINITION OF AN "OBLIGATION"

For decades there had never been a statutory definition of what

constituted an obligation of the United States.

The practice had been, and I might say approved by everybody, including, in some cases, the Comptroller General, that once you thought a transaction would be a liability to the Government, it was to be posted as an obligation—once you felt the transaction could be considered firm.

Now, that had been the practice for decades.

Senator Smith. That is, it was considered an obligation before an

agreement had been finally signed?

Mr. McNeil. Yes. In other words, you had gotten into general agreement and you knew about what it was going to be, but the document had not been signed by both parties. Perhaps it would be an instruction, in the case of military assistance, to someone abroad to carry out a program, and that would be posted as an obligation. I want to repeat in such cases it had been the practice and custom—unchallenged and unquestioned.

We in the Department of Defense felt that and we had attempted,

in the meantime, to develop some of our own criteria.

When the question came up in the Congress, we worked with the committee that developed the legislation because we felt very much that a criterion which we could all understand could be established.

That legislation was passed some time after the beginning of fiscal

year 1955.

The legislation had, perhaps, one defect. There was no real harm in it except it created the problem that was brought out by the Comptroller General yesterday, and that was passing a bill, I believe it was September 7, considerably after the beginning of a new fiscal year, and making it retroactive to transactions that had been recorded on the previous June. After long years of custom, this was hardly a good way to start it off. We were happy enough about having criteria, however, that this did not bother us at the time and we went to work to clear it up.

If you will pardon this long explanation, I will now continue, but

I think it is all pertinent to this problem.

However, the law itself only provided broad criteria. In effect, it said that when there was a transaction between two people and documents were completely executed and had a certain degree of specificity it could be considered an obligation.

But that was not enough, and it called for regulations which described and classified all the different kinds of transactions that exist—from those with foreign countries to those within military depart-

ments, or other departments of Government, and to the various kinds of transactions with contractors.

It involved progress payments, advance payments, and all the dif-

ferent types of things.

Those regulations, which we got to work on immediately after the bill was passed, were submitted, as I recall, to the Comptroller General, which was very proper, in November 1954.

Remember, this was 4 months after the date upon which this act

was made effective.

The Comptroller General gave us his views in March 1955. We were through 8 to 9 months after the period in which these criteria were to be effective.

The views that he expressed were, in general, a concurrence. He felt our regulations were excellent and the criteria, the detailed criteria, we had established were good except for 3 or 4 points which were then worked out.

The regulations were issued complete with their approval in April, I

believe it was, the 29th of April.

Remember, this was 10½ months now after the beginning of the

fiscal year—the effective date of the cut.

Perhaps it is wrong, but in our big organization it takes more than 6 weeks to get a new regulation out and get it understood by everybody. But remember now we are up to nearly a year past the date at which we are now supposed to have done something not quite technically correct.

#### TRANSACTIONS NOT COMPLYING WITH THE LAW

I think there was no question, there is no question, applying retroactively by almost 1 year the criteria of this very good legislation—and it will turn out to be one of the best things that has been done in the field for a long time—but that in the previous June we had transactions posted which may have been good transactions, but which did not meet the specific criteria of law and regulations issued 12 months later—as, for example, both people having signed the document.

Now, the Comptroller General, in testifying yesterday, mentioned a

flat figure of \$400 million.

We know of no such precise figure. No specific list has been submitted although he said that there was an estimate of this amount as a result of test checks of our system, and I think you will find that in his testimony.

We know there was some volume. However, during the year we were attempting to apply these criteria to all the previous transactions, and we did find transactions that were not clear. So the original estimate for the military assistance program in the last year was submitted at \$1.4 billion.

Before that really became a firm figure to the Congress, a little over \$100 million was taken out because we found that, by freeing up certain moneys that were carried over, we did not have to ask for quite as much.

Then, through the President, by an amendment to the budget, the amount was reduced \$225 million which the Comptroller General men-

tioned yesterday.

During this period in the hearings, however, and because there were substantial funds that had been appropriated and carried over and had not been used, the House Appropriations Committee, and later the action of the Senate, further reduced the program by \$420 million.

We feel quite clearly that the \$420 million which, perhaps, the Congress could say should be turned over to the Treasury might be reappropriated for that transaction. That would certainly clear up any legal technicality, but the actual reduction has been made in the gross amount of the program by the \$420 million by the congressional reductions of \$225 million, and by the \$100 million that was deducted from the initial estimate at the time the President's budget was submitted, plus the fact that a number of those transactions which could no be validated as of June 30 were validated subsequently and payments were made.

So that was the kind of a transaction it was, and I think that led to Secretary Wilson's remark earlier that every nickel has been accounted for and taken into consideration by the committee or by

the various committees.

Senator WILEY. May I interrupt there? According to Senator Mansfield, there were some \$600 million there that within a few hours, apparently, were either legitimately obligated, or what has happened in a good many of the executive departments occurred. That is, when they find they have some extra money they immediately go and spend it. That has been told to me by people in the departments themselves. I am wondering whether this was the case in your situation.

Senator Mansfield. Would the Senator yield there for just a moment? I think what Mr. McNeil was explaining just now was the \$400 million which the Comptroller General in yesterday's testimony indicated had been carried over improperly, and now he will

come to the thing we are interested in.

Senator WILEY. Yes.

Mr. McNeil. Incidentally, while it is not particularly important, he even quoted the wrong act that we were supposed to have violated.

Senator WILEY. What?

Mr. McNen. I said that in his testimony he even said we violated a certain act; we did not. It was another act we were supposed to

have violated.

To finish with this subject with just one short statement, this \$400 million affair—after these transactions and the consideration given by the Appropriations Committee, we filed with the chairman of the Appropriations Committee of the House, with a copy to the chairman of the Appropriations Committee of the Senate, a complete statement of the matter. We said we would be glad to sit down with the committee if there was a desire for any additional or alternative action. We thought we had done everything we could on this matter that was raised yesterday.

I have one other point I would like to make, if I may, and then I will try to answer your question about the obligation at the end

of June, on which I will have to have some assistance.

These tables may look formidable, but if I may ask you to just glance at them, it might be helpful in clearing up an impression that I think was given to the committee yesterday.

(The tables referred to are herewith inserted.)

# DISCLOSURE OF MILITARY ASSISTANCE FUNDS

It was implied yesterday before the committee that disclosure of military assistance moneys, in the operation of the Department of Defense has not been made. I want to clear up this point.

We think disclosure has been very clearly made as to fund availability, both in regular reports to the Congress and as part of the whole process of the hearings on appropriations, on our own bills.

If I may ask you to look at one of the sheets for 1956, and the other for 1957, you will find that it shows the operation under the new

legislation that you provided.

Both plans are laid out on the same basis and this is merely to indicate how the amounts are identified in spite of the problem of

integration.

Let us take the 1957 sheet—the first column on the 1957 sheet shows the amount of unobligated funds of the Department of Defense, which it is expected to have on June 30 of this year, \$9,634,000,000. the total at the bottom column of the first column of figures, column 2. The next two columns show the amount of reimbursements anticipated by the military departments based on common-use orders that have been placed with them by the military assistance program. The totals of those two columns equal the value of the common-use orders. estimated to be outstanding as of June 30.

Every dollar is accounted for, and they are all taken into consideration in requesting funds for the Department of Defense, in justify-

ing our whole budget request.

This problem of identification and integration may not be a matter of particular significance to your committee, but all I wanted to do. Senator Mansfield, was to indicate quite clearly how those things were brought into the whole framework.

Of the outstanding military assistance common-use orders, the reimbursements expected by the military departments in 1957 were about \$1,077,000,000, with \$1,881,000,000 to be received after June 30

next year.

Now, while not, perhaps, pertinent to your particular hearings, the unobligated funds carried over as shown on columns 19 and 20, the right-hand columns, are the amounts we have set aside to complete

things that Congress has approved.

It is the amount of unobligated funds that are necessary to complete the ships, the aircraft, and construction that is still under way and which is specifically authorized in each instance by Congress. more thing that this——
Senator Willey. I think that term "unobligated" is the one that

confuses you.

Mr. McNeil. It does, sir.

Senator Wiley. In other words, you mean that you have entered

into a potential agreement, but you have not yet firmed it up.

Mr. McNeil. That is correct, plus the fact, however, that in buying an airplane, Senator, if you buy it right, you buy the longest lead time item first. That may be in May of this year, and that probably would be the engine, because that may be the longest lead time item.

The next thing that may be bought is the fire control and the third

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thing may be bought some months later-perhaps the air frame.

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But you still want to complete that aircraft, so certain instruments may not be bought for 6 months after that, and until they are bought and the firm deal signed by both people, we have to carry the funds as unobligated, in spite of the fact that a certain 100 aircraft are approved by Congress, the transaction is under way by the procurement of the major components. So these unobligated balances, I think, as you correctly said, are rather confusing unless you examine the whole transaction.

Now, there is one thing this table shows, I think, that I believe applies, in part, to one of the questions Senator Mansfield raised

yesterday.

If I could ask that on the 1957 sheet you look down under the heading "Department of the Army" which is about 12 lines down from the top, the first column to the left, \$2,113 million—

Senator WILEY. Column 2?

Mr. McNeil. Yes, sir; shown under "Procurement" and the heading is "Procurement and production, Army." It is the sixth figure down in column 2.

That shows the amount of unobligated funds that we carried over

in the case of the appropriation for the Army this year.

The next column shows the amount of reimbursements they expect from military assistance programs, based on the value of common use orders they expect to have outstanding as of June 30, 1956.

That is true, also, with the \$238 million, but those represented deliveries and reimbursements to be received after next June 30, 1957.

You will notice in the next column a dash. That column represents the amounts requested by Congress for the Department of Defense which is zero. No funds are requested for Army procurement this year, nor were they last year, because we have sufficient carryover, which, together with anticipated reimbursements, will take care of the buying plan for the Army for next year, which is shown in column 11 as \$1,346 million. Therefore, no funds are requested of the Congress.

I hesitated to take the time of this committee with this, but wanted to indicate the way that we attempt, if we have substantial carryovers of any kind or description that developed for any reason whatsoever, where there is a change of program, reimbursement, or otherwise, how such funds are applied as a credit against any new requests of the Congress. So it is perfectly clear to the Appropriations Committees exactly what we are asking for and why; and we are not asking for new appropriations, if the new program which they are asked to approve can be financed with funds directly on hand.

#### UNOBLIGATED FUNDS AS OF JUNE 30

Senator Mansfield. Mr. McNeil, Mr. McGuire said there would be an unobligated amount of \$200 million this year, as of June 30.

Mr. McGuire. We will have unobligated, as of June 30, approxi-

mately \$200 million.

Mr. McNell. That is over and above—this represents, it takes into account in the Department of Defense, the value of all of your outstanding common use orders as of June 30.

Mr. McGuire. That is right.

Mr. McNeil. You may have some military assistance funds for which you have not placed contracts, offshore procurement or special

items, or you may have funds on hand for which you have not given orders to the Army, Navy, and Air Force, to deliver something to you.

In that case, that would represent your \$200 million you just men-

tioned?

Mr. McGuire. That is right.

Senator Mansfield. Mr. McNeil, this is supposed to be of June 30, 1957?

Mr. McNeil. No, 1956. This is 1956. This is the way the picture looks a year from now.

Senator Mansfield. All right. Now, where is the \$200 million

figure?

Mr. McNeil. This is the Department of Defense, sir, showing how we bring the military assistance common-use orders into our structure in the Department of Defense.

Senator Mansfield. Yes.

Mr. McNem. This is not military assistance. We will have to take care of that next.

Senator Mansfield. You will have a \$200 million carryover in mil-

itary assistance.

Mr. McGuire. The military assistance budget to which we were addressing our remarks here will have \$200 million unobligated, we estimate, as of June 30.

Of the \$200 million we feel that \$28.9 million need not be carried

over.

Mr. McNeil. I think, Senator, maybe I can help clear it up.

If the military assistance program, from what Mr. McGuire just stated, might be expected to end up on June 30 with about \$200 million, for which no orders had been given to the Army, Navy and Air Force to deliver, if they did give those orders, did place an order upon the Army, Navy for delivery, with that \$200 million, this figure, or these figures, would be increased by a like amount immediately after they received the order.

But, at the moment they do not plan to place orders to that amount. Mr. McGuire. We estimate we cannot place the orders because of some contractual difficulties such as offshore procurement, for example. The offshore procurement negotiations this year are rather prolonged because we are insisting on certain conditions being agreed to by the foreign governments.

Senator Mansfield. If you do not obligate them, or reserve them by the end of June 30, then they come back into the Treasury of the

United States?

Mr. McGuire. They would come back into the Treasury of the United States, unless the authorizing committee, as I understand the procedure, or the appropriations committee, rather, gives us permis-

sion to carry them forward.

Senator Mansfield. All I can say, Mr. McGuire, is I hope they are more accurate this year than they were last year. Then we tried to give you, through an amendment which the chairman discussed on the floor of the Senate, twice as much as you said you would need—not you but your predecessor.

Mr. McGuire. I understand that, sir.

Senator Mansfield. When the matter was looked into, we found there were \$1,300,000,000 in the amount.

Mr. McGure. The figures I am now giving you are based upon a compilation brought forward from the known obligation figure of

April 30.

There is one point I would like to make to you, sir, when you get to offshore procurement, if you are in the middle of a contract over there, let us say, on June 15, we either have to complete the transaction by June 30 or we have to drop the whole matter and start it all over again.

Senator Mansfield. As I understand it, the Secretary of Defense can make a request of the proper authorities to get permission to

carry over funds.

Mr. McGuire. That is what I am doing and that is what we have requested in the legislation. As a matter of fact, the legislation request is that all of the funds be carried over that are not obligated.

I am pointing out to the committees that there is \$28.9 million of the funds that we believe will not be necessary to have carried forward. They are of the season type of thing, as I tried to explain.

For example, our delivery estimate has slipped slightly. Obviously, I am not going to have to pay a delivery charge on undelivered items this year, so the delivery charge I did not have to pay need not be carried forward. I made an estimate for my deliveries next year based on a new delivery schedule.

Senator Mansfield. What you have said sounds reasonable, but I would like to ask a direct question of both you and Mr. McNeil.

#### EXPLANATION OF LAST-MINUTE OBLIGATION OF FUNDS

Is it true that there were between \$600 and \$700 million reserved in the last 5 hours of the last day of the last fiscal year?

Mr. McNehl. Yes, sir; and I would like to touch on that subject. Mr. McGure. I was not here, Senator, and in that respect I am not a proper witness.

Senator Mansfield. Yes.

Mr. McNeil. If I may deal with that next—I have just one further comment on the previous subject: In hearings this morning before the Government Operations Committee of the House, statements were made very similar to those made by the Comptroller General yesterday which, as I said, gave the impression, and even said that some of these things were not being divulged to Congress.

All I wanted to show was that we definitely are, and I think it is either just loose talk or lack of knowledge of the whole process that may result in rather careless statements being made, because it is

not correct.

I think they are very well accounted for at the moment.

Now, the history has not always been good and that brings us to the problem, to the question, that Senator Mansfield asked yesterday, and which you, Senator Wiley, just brought up a minute ago about the rate of obligation in the last part of a year.

My comments are those from, you might say, sitting on the sideline

rather than operating the military assistance program.

Of course, I was involved in some of these transactions—at least

to the extent of getting this new procedure underway.

So my next remarks, my next statement, will deal with this matter in general terms—I know Mr. Gray's predecessor attempted to improve the operation of the program.

When he was placed in charge of military assistance we felt that the carryover balances were too large, the unexpended portions of

military assistance were too large.

It was felt there had been changes in situations from those originally planned—under the various ministers' agreements in the early 1950's—there were agreements as to the development of forces of certain sizes, certain strengths.

Some of the countries did not develop the forces that were originally

agreed upon by their ministers or planned originally.

It was those original forces upon which the original materiel re-

quirements were computed and based.

It was felt, about a year and a half ago, that it was about time to

stop and take stock of what changes there had been.

So, rightly or wrongly, in the first part of the fiscal year in question, there were just no actions taken to approve any additional programs. It was a question of stop and take a look and evaluate again the whole thing which, in effect, meant that all the business done in that year on military assistance was done in the last 4 or 5 months of the year.

Next, the procedures were, and I think still are, too involved in that I think they go through too many steps and, perhaps, too many re-

reviews, all of which are time-consuming.

In the case in question I know that programs which were approved in the spring, say in March, but for which apportionment was not made by the Bureau of the Budget until late in June, were placed as orders on the 27th, 28, and 29th and 30th of June. They were based on programs which had been worked out and approved 2 or 3 months before.

I think there is someone here who lived with it at that time who could outline the general situation on the amount, or take a typical

case and carry it through.

I wonder if you could outline the general situation, Mr. Shaw, starting with the situation beginning in March and carrying it through to June 30. The practice is not good, as a general rule, but we were forced to do it at the end of the last year.

Mr. Shaw. Mr. Chairman, I am Markley Shaw, the Comptroller of

ISA.

Mr. McNeil has referred to section 110 of the Mutual Security Appropriation Act of 1955, and he has explained to the committee that it required an adjustment in our accounting practices in the Mutual Defense Assistance program.

Section 110 included the requirement that we should transfer unliquidated direct obligations which were on record as of June 30, 1954,

to the reservation accounts which section 110 authorized.

This meant that we did in fiscal year 1955 a gross item business of \$5.3 billion.

Of that amount \$3.2 billion represented the net obligations and/or

reservations reported during that year.

We did not know at the beginning of the fiscal year 1955 how much of the unliquidated obligations in the hands of the services represented obligations for common items.

We had at the start of fiscal year 1955, carefully defined common items; we had carefully defined delivery and met the purpose of

section 110 to assure that MDAP money would not be expended until deliveries to the MDAP program had actually been accomplished.

This was to avoid a repetition of the circumstances which added to

the diversion of material.

It was a requirement of the same act that we balance or equate our expenditures with deliveries.

It was a terrific job for the Air Force to do. The Air Force was

mostly involved.

Unavoidably, it took until late in the fiscal year for us to determine

just what that equalization amounted to.

Finally, after the end of the fiscal year, and before the conferees finally settled our 1956 appropriations, it was determined that the expenditure refund due from the Air Force was \$749 million.

Because that was not determined until so late and because we did not have the certifications from the services as to the status of obligations as of June 30, 1954, it was most difficult for us to determine just what our availability was.

Consequently, the Bureau of the Budget was unwilling to apportion something like \$709 million of our fiscal year 1955 money until we were able to demonstrate what our certified balances were as of June 30,

1954.

As Mr. McNeil says, the program for fiscal year 1955 had been very carefully examined, very carefully screened. It was all set up, and had been set up for months, at the time we were able to determine accurately our balances, and at the time the Bureau of the Budget made its final apportionment.

Consequently, it is true, Senator Mansfield, that on the last day of June, \$613 million was placed in reservation against the programs which had been developed and approved several months earlier.

Orders amounting to another \$360 million were issued in June for

a total of \$997 million.

Mr. McNeil. They were in effect orders placed on the military de-

partments to deliver in the months to come.

Mr. Shaw. They were orders placed upon the military departments to deliver common items; that is, items common to MDAP requirement and common to service requirements, which were in service stocks or which were to be procured by them for our program, and it was a matter simply of attempting to execute the program in accordance with the law, with the will of the Congress and with the desires

of the Secretary of Defense.

Mr. McNell. I think, if I may add this, that some of those orders that were placed on June 30 I think definitely were ready to be placed in March, but it was not until we could get a balancing out of the figures—in other words, we had to go back to 1950, take all the items that had been delivered which the law called for, and which is very proper, put a value on those items, and then take the amount which had been spent, and the difference required either payment to the service by MDAP or refunds by the service if they had not delivered material equal to the charges made in the previous 5 years; that is the kind of a problem we had.

Senator Mansfield. Mr. McNeil, Mr. Shaw's explanation sounds

very reasonable.

#### DERESERVATIONS

I have one question, and I hope you will forgive my suspicious nature: Was any of that money obligated or reserved in the last month, deobligated or dereserved in this fiscal year?

Mr. Shaw. No, Senator, no dereservations were made in fiscal year

1956. We have not deobligated any funds put in reservation.

# ADJUSTMENTS IN COST ESTIMATES

To make it clear, I must say there are instances where the services originally estimated the cost of items higher than the cost actually turned out to be at the time they made delivery but our program had been in excess of the amounts of the orders, and through or with the agreement of ISA, the services have adjusted the types of items here and there.

There have been adjustments in general categories included in our common-item orders, but this is all considered entirely in order and

a necessary practice in the administration of this program.

Senator Mansfield. How much did those adjustments based on overstatements amount to?

Mr. Shaw. I cannot tell you. I could get the figure. It is a plus and minus sort of thing, Mr. Mansfield.

Senator Mansfield. Could you try to get that figure as close as

you can?

Mr. Shaw. Yes, sir; we will give you a statement of the adjustments made to the June 30 orders.

Senator Mansfield. And also make a summary, if you can, of those pluses and minuses so we will have the final figure.

Mr. Shaw. Yes, sir; we will.

(The following was subsequently received for inclusion in the record:)

During the period June 28-30, 1955, the Office of ISA Comptroller issued common item reservations in the amount of \$990,811,138, consisting of \$453,922,467 for Army, \$475,870,873 for Air Force, and \$61,017,798 for Navy. These common item order reservations were based on program requirements submitted by the military departments in March 1955 and reviewed and approved by DOD, ICA, State, and the Bureau of the Budget.

During the period from July 1, 1955 to April 30, 1956, the military departments requested the approval of \$103,354,485 worth of major deviations to the common

item orders issued on June 28-30, 1955, as follows:

1. Army, \$27,230,000 plus and minus.—The Army program adjustments represent 6 percent of the \$453,922,467 common item reservations. These adjustments include price changes and program deviations approved by DOD and ICA.

2. Air Force, \$63,124,485 plus and minus.—The Air Force program adjustments represents 13 percent of the \$475,870,873 common item reservations. Most of these deviations were generated during the program revalidation exercise conducted in November 1955 and represent the following:

(a) Transfers from the old Air Force MDA budget structure to the new budget structure, that is, certain items in project 112, "Aircraft components and maintenance spares and spare parts" were transferred under the new budget structure to project 160, "Weapons"; project 240, "Training equipment"; project 250, "Shop and utilities equipment"; project 275, "Photographic equipment"; and project 300, "Organization, base and maintenance equipment and supplies." Under these adjustments the basic requirements remained the same, but the budget projects were altered accordingly.

(b) Price savings and program changes involving these common item

orders were used to finance other approved program requirements.

3. Navy, \$13,000,000 plus and minus.—The Navy program adjustments stemmed primarily from the deletion of P2V7 aircraft which have been deferred until fiscal year 1957. These adjustments were in turn offset by the substitution of other DOD and ICA-approved program requirements.

#### DEOBLIGATIONS

Mr. McGuire. Mr. Senator, I wonder whether I could speak to a point here? I have heard about this exercise that went on last year.

I think we do almost too much reviewing. It seems to me we are constantly reviewing, and the items that Mr. Shaw is speaking of here are examples of it.

I know of no evidence that any great amount of money was put,

into a reservation and then the next day deobligated.

I became concerned when I heard about this matter but I have not been able to find any evidence of malfeasance. The only thing I could criticize is sometimes I think we are reviewing too long when we ought to get on to delivering the goods.

Senator Mansfield. Well, Mr. McGuire that is a very fine point and I am glad that a constant review and scrutiny is kept up because

you are handling hundreds of millions of dollars here.

Mr. McGuire. That is correct, and I have got to praise them for it.

#### ADJUSTMENTS

Mr. McNeil. May I ask Mr. Shaw a question which may further clarify this on the part of the adjustment?

He mentioned there had been no dereservations in 1956 of those

placed prior to June, but that there had been adjustments.

Are the adjustments usually of a type where the common-use orders specified 100 6 x 6 of a certain type of truck; either because of lack of availability or suitability of the customer it was found that perhaps you delivered 100 4 x 4 trucks in that particular instance and there would be an adjustment of that kind, still filling the same need?

Mr. Shaw. This explains adjustments.

Senator Mansfield. I think, Mr. Shaw, we ought to have that information, if for no other reason than to justify what you have done with these funds, and to lay out, so to speak, the type of bookkeeping you have to go through to produce this result.

Mr. Shaw. Yes, sir.

Mr. McNell. Mr. Chairman, I have one request I would like to make, if I may, in that yesterday there was a long statement by the Comptroller General and there were a number of points that I think need some amplification to give the complete story as we see it; and if I may file as part of the record of this hearing a statement covering other points, I would appreciate it very much.

The Chairman. Yes, sir; you may do so. We will be glad to have

you do so.

(The statement referred to was not available at time of publication.) Senator Mansfield. I have just a few short questions.

# REQUIREMENT FOR SECRETARY OF DEFENSE TO CERTIFY DEOBLIGATIONS

In the matter of deobligations and dereservations, I find that the Defense Department does not keep an account of deobligations.

Their procedures require that only net obligations be reported.

We are also informed that the Department also keeps no record of

reservations which are canceled or voided in any way.

The Office of the Secretary of Defense states that due to these facts it cannot determine whether any of the funds obligated or reserved for the last days of June 1955 were subsequently released from obligation for reservation.

However, section 110 of the Mutual Security Appropriations Act

of 1955, which Mr. Shaw has mentioned, provides:

Within the limits of amounts available from funds so allocated the Department of Defense is authorized to incur in applicable appropriations, obligations in anticipation of reimbursement from such allocations, and no funds so allocated and available shall be withdrawn by administrative action until the Secretary of Defense shall certify that they are not required for liquidation of obligations so incurred.

This provision would seem to require that funds de-reserved shall be certified by the Secretary of Defense.

It would also seem to follow that there should be a record of such

transactions; is that correct?

Mr. McNeil. There are several questions posed in that one long statement, I believe, and I will try to answer them in different segments.

First, the intent of the requirement for the Secretary of Defense to certify in a case of the deobligation or for a dereservation was a very necessary protection in the bill in this type of instance, where military assistance had ordered from military departments certain items which were then being procured also for the military departments.

So that the military department, in placing an order for a hundred

So that the military department, in placing an order for a hundred F-84 aircraft with Republic, for example, and then changing its mind and saying: "We do not want the F-84's", MDAP, must bear the termination charge on that contract and, therefore, the Secretary of Defense would have to certify as to the value of that termination cost before the dereservation could be made. And, now, that is just one facet.

But it was not my understanding—at least during the discussions of the language at the time the bill was written—that the certification by the Secretary of Defense applied to dereservations unless they were involved in canceling an order upon which the military department was dependent, upon later getting reimbursement for work that it did under instructions.

Senator Mansfield. You think it applies only to net obligations?

Mr. McNeil. In the sense that I just outlined, sir.

Senator Mansfield. All right.

Mr. McNem. Next, it is accountingwise and physically impossible to segregate the obligations and expenditures under contracts placed by military departments for material which includes material also being delivered to them.

That was one of the main purposes, I believe, of section 110, and it is one of the reasons we very clearly show, as part of the assets of each specific appropriation, the value of common-use orders placed by mili-

tary assistance with the services.

As these sheets indicate, each appropriation will show exactly the amount and the value of the common-use orders that have been placed with them by military assistance.

Once they have done that, however, the particular military assistance

dollar and the defense dollar loses its identity; it must do that.

There is no human possible way to segregate it accountingwise or otherwise as, for example, I mentioned earlier about the purchase of tanks.

It is impossible to segregate the dollar when you buy the material

in components rather than as end items.

Therefore, we have to treat the assets, future reimbursements in this case, for the military assistance program, the assets to the appropria-

tion in bulk, and not by specific, identifiable action.

However, if there is a cancellation, you trace it back. This does not happen too often, but you could find a military assistance order for a number of certain aircraft, which should bear its proportionate share of the cost because of cancellation, termination, or a change in the program.

Senator Mansfield. Don't you think, Mr. McNeil, that the Secretary of Defense should be required to certify when funds are dere-

served?

Mr. McNeil. Well, it is one of the things we are working on right at the present time in our whole establishment, and it is a part of a system we are establishing for commitment type of accounting, that is, for the stage between the approval of a program and the actual execution of a contract or a valid obligation.

We are trying to see if we can also develop, as part of this system, the recording of any deobligations in our own place, as well as military

assistance, so that we will know what the total assets are.

It is true, in the whole Government in past years, the practice has been that the deobligation and the new obligations are reported as net. We ought to know about it.

Senator Mansfield. Don't you think reservations ought to be in the

same category?

Mr. McNeil. Reservations and deobligations should be in the same category.

#### TRANSFERS

Senator Mansfield. I note that in the question of transfers, there have been transfers made from the military assistance account to others. These are not significant except for fiscal year 1955 when, of \$1,092,700,000 appropriated for military assistance, \$320 million, or almost one-third, was transferred to other accounts.

As of May 1, according to what information I have, there have

been no transfers in fiscal year 1956 to date; is that correct?

Mr. McNeil. I will have to ask Mr. Shaw to answer that. I know that some of those transfers a year ago were administration decisions and not those of the Department of Defense. But I wanted Mr. Shaw to speak on that.

Mr. Shaw. Yes, I cannot explain exactly what the transfers in fiscal year 1955 were, Senator Mansfield. We can get a listing and insert

that listing in the record, if you would like to have it.

Senator Mansfield. That will not be necessary. Is it true that

there have been no transfers in this fiscal year?

Mr. Shaw. Transfers during fiscal year 1956 total \$19 million, but these were for the purposes of the MDA program.

Senator Mansfield. I see.

Mr. Shaw. It was simply a matter of convenience for both sides of the shop.

Senator Mansfield. Could you give us a little résumé of that for

the record?

(The following was subsequently inserted for inclusion in the record:)

During fiscal year 1956 there has been allocated to agencies outside the Department of Defense \$6,674,000 the appropriation for military assistance and \$12,896,780 from the appropriation for direct forces support. Of the military assistance funds, \$6,474,000 was made available to the Department of State and the balance of \$200,000 to the International Cooperation Administration (ICA).

All of the direct forces support funds went to ICA.

All of these allocations and transfers were for the benefit of programs for which Defense is responsible and not for the programs of the receiving agencies. Through its overseas missions State provides support for military assistance advisory groups (MAAG's) in most countries, training missions attached to certain of the MAAG's, and to the offshore procurement offices at various overseas stations. The facilities of ICA have been utilized for procurement of certain commodities for direct forces support and to support a small defense group not otherwise provided for.

Mr. Shaw. Yes; fiscal year 1956 transfers out.

Senator Mansfield. Yes. What I want to point out is the lessening trend in that direction since 1955, when there was a very sizable transfer of funds under the act.

Mr. McNeil. I might say, I am familiar to this extent with that, that the people operating the military-assistance side of this program were very unhappy about those transfers because each time there was a transfer it meant that they had to go back and reprogram future deliveries and country programs which delayed the implementation of the program from a week to a month each time a shift was made.

#### RESERVATIONS

Mr. Mansfield. Mr. McNeil, copies of common-item orders for the past year have been obtained from the Defense Department. They show that on 2 days, June 28 and June 30, 1955, 6 orders were issued reserving approximately \$1 billion. These orders list only general categories of items, whereas other orders describe the items in minute detail.

June 28 and June 30 orders also differ from other orders in that they include this sentence:

Item contents of this common-item order will be issued to you by ISA/OMAP under a separate cover and is to be made a part of this order.

Now the question is, When were these item contents of June 28 and June 30 orders issued?

Mr. Shaw. They were issued immediately, sir. Those references there referred to are the delivery schedules, the itemized list of materials, that were a part of the programs, which was approved several months before the orders were issued.

Senator Mansfield. Now, is it significant that the file of commonitem orders furnished the staff which was supposed to be complete shows none issued between June 30, 1955, and February 14, 1956?

Mr. Shaw. There is nothing erroneous about that. We did not issue—once again it takes a long while for us to revalidate our-programs, to take the original program, present it to Congress, and

to rework that program, to fit the funds that are appropriated and

are made available for the year.

It is a very difficult process and, as Mr. McGuire has just said, many of the delays are due to the negotiations that we undertake with the governments that we are attempting to assist. They must get their funds for their side of the operations in order.

Mr. McNeil. I think also, Senator, this last year there was a very substantial reduction in the House and Senate appropriations in the appropriations bill for the original request and, therefore, the plan-

ners had to start all over from scratch.

#### ACCELERATED RATE OF OBLIGATIONS

Senator Mansfield. Of course, Mr. Shaw, the thing that disturbs some of us each year is that the same pattern is followed that in the first months of the fiscal year nothing seems to be done and then toward the end you have a great step-up which does cause a certain amount

of questioning.

I was wondering, in view of the fact that you have a lot of long lead items, why there could not be more continuity in the disbursing of these funds, and doing away with the showing in the last 1, 2, or 3 months, which indicates that most of the money is being spent toward the end, just before the deadline when new appropriations are being made?

Mr. McGuire. Senator, I would like to speak to that, if I may?

One of the things that struck me very quickly when I came into this operation was the length of time from the time that the funds were made available to spend until they actually got spent.

I am not criticizing nor I am not challenging the fact that you must

have an intelligent path to follow in spending your funds.

We believe that for fiscal year 1958 we have developed a method, based on worldwide priorities, which will speed up the program.

If you recall, this year it was about February 1 before we really

started to get to work to commit these funds.

Next year, I expect to move this date up to the middle of December, and I would hope after another year to be able to get it up to Decem-

ber 1, or even the middle of November.

Mr. McNeil. We have had that problem in Defense a bit, too, and this year we are attempting to solve that in part by trying to firm up in the next 30 days the buying programs of Army, Navy, and Air Force—I am speaking of our own Department of Defense programs—because, in fact, too many of them have been firmed up after July 1 and did not provide for an orderly flow through the year.

#### NO-YEAR FUNDS

Mr. McGuire. I, personally, believe, Senator, that no-year funds would help us, and when I speak of no-year funds, I am not speaking of funds we do not report on. I am speaking of funds that you would appropriate to us and against which, at the end of the year, we would give you a list of the funds that we had not obligated and how much we wished or intended to obligate in the next year.

I think it would be a great help to the administration of this pro-

gram.

If I may draw a simile in the retail business: Just because Easter comes, I do not stop planning for Christmas. I start planning for Christmas in February and it is a continuous plan; I cannot stop and start again just because a calendar year comes along.

I believe that some of the funds that we have not been able to obligate could be placed, if we had no-year funds, much more properly and intelligently, and I think we should report to you what the status

is of that so that you are fully aware of it.

Again, I am not speaking now of trying to have funds that we

would not have to report on.

Mr. McNeil. I might add, sir, the Department of Defense procurement appropriations are now on a no-year or continuing basis; I believe the Appropriations Committee has found that it is saving quite substantial sums because of the better administration we get through their use.

Senator Mansfield. Would you say, Mr. McNeil, it has resulted in a little more caution in the expenditure of funds in the Defense

Department?

Mr. McNeil. Yes, sir; it has very much.

May I give you an example, sir, that proves my point very much? One of the services, the Marine Corps, had an annual appropriation for their major procurement up until 1953. At that time we had review after review and hearing after hearing to see if we could not find some items that were ordered in 1950, 1951, and 1952 that could be eliminated.

But you could not because everyone knew you lost the money if the contract was canceled, or an order was canceled for, say, radios,

contracted for in 1950, 1951.

After discussions with the House committee, which had given and provided a continuing type or no-year funds in aircraft, ships, public construction areas, and they thought it was a good idea, there was provided the continuing type funds for the Marine Corps.

Within the next 6 months, \$300 million worth of business that was outstanding under contract was eliminated, and substituted therefor were items they wanted much more, needed much more. The \$300 million was applied as a credit on the next year's appropriation indicating the positive value that you can get out of no-year funds.

# STATING APPROPRIATIONS ON AN ACCRUED EXPENDITURE BASIS

Senator Mansfield. One more question: Mr. McNeil, Mr. Campbell said that the appropriate agencies are not, as a rule, in a position to furnish detailed information as to the execution of planned programs, and he referred to both military and nonmilitary.

He suggests that, "a possible approach to this problem might be

to state appropriations on an accrued expenditure basis."

What would be the reaction of the Department of Defense to that? Mr. McNeil. There has been a great deal of very loose thinking,

talk and proposals, on that subject.

Taking the Department of Defense as a whole, it is easy to use the word accruals, but accruals, if applied completely, involve depreciation and all the other elements of cost which you usually find in commercial type establishments.

The Department of Defense at the present time, in all its business activities, is applying accrual accounting, other than depreciation, to operations as rapidly as possible.

We have practically all our big industrial and commercial opera-

tions on that basis at the moment.

As to what is meant by the accrued basis in the case of the purchase of materiel, however, is something that is not answered. Actually, there is no such thing as an accrued basis when you place a contract with, let us say, Lockheed for aircraft. You either pay the bill, or you do not. They must run accrual accounting in order to know their costs, but when we pay the bill, there is no such thing as an accrued cost, or accrued costs.

In dealing with the procurement of materiel anywhere, it does not

apply. That is why I say it is rather loosely stated.

Now, in the field of what we call our housekeeping, or maintenance and operation of posts, camps and stations, the accrual principle has merit. However, in what he is proposing the budgets for everything would be based on that when submitted to Congress.

However, I think that Congress would definitely lose any control and so would the Secretary of Defense, and so would the Secretary of the Department or the Chief of Staff, if you abolish or eliminate the

obligational system without finding an adequate substitute.

There is a proposal by certain accounting groups to eliminate the obligational process in the Federal Government. I think it is basically wrong.

I do think that accruals are necessary, accrued expenses are necessary, in order that we may know how much we are actually consuming in getting a job done during any monthly or yearly period.

I think that is very proper, but I think we must retain, and I want to emphasize that very much, this obligational authority concept,

but there is nothing inconsistent about having both.

Senator Mansfield. Mr. McNeil, now will you answer for the record with a statement of your own the statement made and the questions raised by the Comptroller General?

Mr. McNeil. Yes, sir.

Senator Mansfield. Do you feel that you have been given enough of an opportunity to answer the questions relative to the obligations and reservations made last June at the end of the fiscal year?

Mr. McNeil. I do, sir, unless there are some questions the members

of the committee still have.

Senator Mansfield. I have no further questions, Mr. Chairman. I want to thank you and Senator Smith for your forbearance, and also these individuals who came down from the Department of Defense.

The CHAIRMAN. Thank you, Senator Mansfield.

Mr. McNeil. I have just one thing to say, sir, that none of us are happy until we get a little closer to perfection, but I may say that if you will come down some Saturday you will still find some of us working, trying to get this in shape.

Senator Mansfield. You will find some of us working, too.

Senator SMITH. Mr. Chairman, I want to thank Senator Mansfield for bringing this matter up; it is a very complicated subject, and we want to have the record clear on it, because of the public criticism in the press, and so forth.

I think you have made a great contribution in helping to get this straightened out.

The CHAIRMAN. Well, thank you very much, all you gentlemen

who are here.

The committee will recess until 10:30 tomorrow, and we hope to

get through tomorrow.

(Whereupon, at 5:30 p. m., the committee adjourned to reconvene Wednesday, May 23, 1956, at 10:30 a. m.)

# MUTUAL SECURITY ACT OF 1956

# WEDNESDAY, MAY 23, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS. Washington, D. C.

#### EXECUTIVE SESSION

The committee met, pursuant to adjournment, at 10:35 a.m., in the committee room, United States Capitol Building, Senator Walter F. George (chairman) presiding.

Present: Senators George (chairman), Green, Fulbright, Hum-

phrey, Mansfield, Long, Wiley, and Aiken.
Also present: E. Perkins McGuire, Deputy Assistant Secretary of Defense for MDAP, International Security Affairs; Rear Adm. W. S. Delany, Deputy Director, International Cooperation Administration for Mutual Defense Assistance Control; H. T. Carter, OSD (ISA); Benjamin Forman, OSD, Deputy Assistant General Counsel; R. G. Barnes, Department of State, U/MSA; Joel Bernstein, ICA, O/EUR; R. H. Kranich, Department of State, EUR; J. W. Doolittle, Jr., ICA; R. W. Hale, ICA/MDAC; John E. DeWilde, ICA/Cont.; J. Murphey, ICA/Comptroller; L. J. Saccio, General Counsel/ ICA; Col. H. H. Critz, DOD/ISA; M. A. Solomon, DOD/ISA; Philander Claxton, Department of State; R. Cutter, ICA; Monroe Leigh, OSD, Assistant General Counsel.

The CHAIRMAN. Gentlemen, we will go ahead this morning because

this is largely a record here that we want to make.

I believe we have as the first witness this morning Mr. Markley Shaw.

Mr. Shaw. Yes, sir.

The CHAIRMAN. You may proceed if you will. The other members of the committee will be coming in. If you have anything in the nature of a formal statement you may put it in the record and then summarize it or you may go ahead with it.

# STATEMENT OF MARKLEY SHAW, OFFICE OF THE DEPUTY SECRE-TARY OF DEFENSE FOR MUTUAL SECURITY AFFAIRS

Mr. Shaw. Mr. Chairman, I have been asigned to speak on three subjects which are budgetary items in our 1957 request.

One is infrastructure; one is the support of international military headquarters; and the third is the administrative expense item for

military assistance. I do have a prepared satement on infrastructure. It is short but

I do not think it will be necessary to read it. I would appreciate it if it could be inserted in the record.

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The Chairman. It will be inserted. (The prepared statement submitted by Mr. Shaw is as follows:)

STATEMENT BY MARKLEY SHAW, INTERNATIONAL SECURITY AFFAIRS COMPTROLLER,
OFFICE OF ASSISTANT SECRETARY OF DEFENSE (ISA) ON NATO INFRASTRUCTURE

Mr. Chairman and Members of the Committee:

My purpose here is to review briefly the steps that have been taken by NATO and the member countries to bring the infrastructure program to its present state of development. I will describe procedures which produce projects for the NATO Council consideration and approval, the budgetary control system that has been adopted to regulate and control obligation and expenditure of internationally provided funds, the scope of the program in terms of general categories, the authorizations previously granted by the Congress, and the relationship of obligations and expenditures to that total authorization.

#### ORIGIN OF COST-SHARING

Infrastructure—or to use the accepted United States terminology for that type of work, "military construction"—as an international activity was initiated by the Western Union Defense Organization in 1950. At that time there was a requirement for 30 airfields, one headquarters, and about 34 signals communications projects in France and the Netherlands to support the Western Union military plans. Since these installations were to be used by all members of the western alliance, it would obviously have been unfair to saddle France and the Netherlands with the whole cost of the construction to be undertaken in their territories. The five powers therefore agreed to share the cost of this program, which came to be known as the "first slice." This was the origin of the principle of cost-sharing which was adopted by NATO as the basis of all later infrastructure programs.

The planning of the next program—the "second slice"—was begun by Western Union and eventually taken over by SHAPE. Since that time the total number of slices agreed for funding by the NATO nations under appropriate cost-sharing formulas has reached the total of 7, for a currently estimated total cost of approximately \$2 billion. Of the total cost, the United States share authorized for appropriation by Congress is \$780 million. The net obligational authority provided to date by the Congress against this authorization, including fiscal year 1956 appropriation, is \$610.2 million. It is estimated that by June 30, 1956, total United States obligations for infrastructure will be \$563.2 million. United States expenditures reported against these obligations and estimated for the balance of this fiscal year are \$376.6 million.

The commonly financed infrastructure projects are those which have been found essential to the execution of SHAPE's and SACLANT's international military plans. They are in addition to the military construction undertaken by individual nations at their own expense, and are in addition to the facilities in the NATO countries which would contribute to the support of military operations, both in peacetime and in war.

#### DETERMINING PROJECTS FOR NATO

It is understandable that the physical facilities required to support military activities have to be adjusted in accordance with the changes-in-force composition and military equipment for those forces. There has been developed in NATO a careful procedure for determining those military facilities which are the minimum essential to NATO plans. Originating in the host nation, proposed projects are first screened by the international military subordinate commands, forwarded to SHAPE, for evaluation as to their importance to NATO-wide operation, then to the Standing Group and the Military Representatives Committee for further military justification, while at the same time to the NATO International Staff for technical examination and possible reduction in scope. Ultimately, in the form of a "slice," the projects are submitted to the Council for approval, and it is at that time that the member countries commit themselves to provide at the appropriate time the necessary funds according to the approved cost-sharing formulas for program implementation.

The cost-sharing formula specifies only the cash contribution that will be made by each country. The host countries provide without cost to NATO land

and local utilities and otherwise facilitate the implementation as a part of their contribution to NATO progress. This contribution is not and cannot be measured in terms of cash.

The host country, i. e., the country in which the project is to be built, acts as the construction agency for NATO and, with guidance from the international staff, proceeds with the preliminary work leading to the point where it is possible, under the budgetary control procedures, to authorize that country to commit funds against detailed engineering plans. These requests for commitment authority are concurred in by one of the infrastructure committees on which the United States has constant technical representation, or if there cannot be agreement, the proposal goes to the Council for resolution. As the work progresses, the host countries submit progress payment requests which in turn are carefully examined by the NATO committees before payment actions are recommended. I would like to remind the committee that there has been appointed by the Council an International Board of Auditors to audit infrastructure accounts, which reports only to the Council. The United States member of this Board is an official of the General Accounting Office.

The following table provides a summary, by category and value, of the infrastructure projects included in the second through the seventh slices. As has been previously stated, the United States has congressional authorization and, with the funds being requested for fiscal year 1957, expects to have the necessary obligational authority to meet its fiscal year 1957 infrastructure obligations. ever, the NATO military authorities feel that they will have to request an expansion of the program. Their program suggestions will probably be considered by the permanent representatives during May or June this year and, if approved, will mean a new request for authorization and appropriations in our fiscal year

1958 estimates.

The implementation of the infrastructure program is accomplishing a dual pur-While it is providing modern facilities of a standard adequate to meet the requirements of NATO war plans, it is at the same time serving to bind NATO countries together in a common effort to support the single purpose—the defense of the free world.

## MUTUAL DEFENSE ASSISTANCE—INFRASTRUCTURE PROGRAM

# Status of total program, by slice, by category, and United States share of total program

#### [In thousands of dollars]

	Total	Airfield 1	Signal	War head- quarters	Petroleum, oil, and lu- bricants	Naval bases	Radar naviga- tional aids	Training installation	Radar warning in- stallation	Contin- gent fund	Other
Slice II Slice IV Sli	349, 334 513, 007 406, 616 (219, 800)	146, 043 462, 385 194, 813 (113, 451)	203, 291 34, 535 36, 610 (24, 861)	16, 087 8, 663 (5, 863)	84, 753 (75, 625)	35, 689	9, 570	34, 320	2, 198		
Slice IV B	- (186, 816) 251, 384 250, 600	(81, 362) 26, 401 92, 459	(11, 749) 38, 993 29, 338	(2, 800) 5, 972 2, 156	(9, 128) 131, 040 46, 427	(35, 689) 33, 258 77, 560	15, 720 571	(34, 320)	2, 089		
Slice VII <sup>2</sup>	198, 016 1, 968, 957 88, 200	26, 348 948, 449	24, 192 366, 959	11, 424	297, 920	17, 136 163, 643	26, 617	336 34, 656	2, 968 7, 255	79, 156 79, 156	88, 200
Grand total, slice I-VII	2, 057, 157	948, 449	366, 959	44, 302	297, 920	163, 643	26, 617	34, 656	7, 255	79, 156	88, 200
United States share of grand total 4	780, 000	375, 728	145, 371	17, 550	118, 020	64, 827	10, 544	13, 729	2, 874	31, 357	

For reconciling purposes only; minor adjustments have been made in the amount shown in the airfield category.
 Including contingent fund.
 United States did not participate in slice I.

Source: ISA Comptroller, Apr. 24, 1956.

<sup>4</sup> United States share is approximately 38 percent of the grand total.

#### INFRASTRUCTURE AUTHORITY NOT NECESSARY THIS YEAR

Mr. Shaw. Infrastructure requires no consideration this year by this committee in that there is existing authority required to cover the appropriations requested in fiscal year 1957. The total authorization previously granted by the Congress for this program is \$780 million. The net obligational authority granted to us by the Congress to date has been \$610 million.

The estimated total obligations to date are \$563 million. The estimated expenditures as of June 30, 1956, \$376 million. There is only this statement, I think, that should be added to the infrastructure story, and that is that the international military authorities in Europe are now planning to develop proposals for extending the infrastructure

program.

The original value of the program approved by the NATO Council is roughly \$2 billion. To meet the requirements of the new concept in Europe, the new air-defense plan in Europe and the other adjustments to military plans that are taking place because of modernization, it is estimated that it will be necessary to extend in future years the scope of the infrastructure program.

Consequently I believe the Department of Defense, when appearing before the committee next year, will ask for increased authori-

zation.

The CHARMAN. You mean that the \$2 billion is the total cost?

Mr. Shaw. That is the total cost, sir.

The CHAIRMAN. To which we merely contribute?

Mr. Shaw. We merely contribute.

The CHAIRMAN. But our contribution has been how much, you say? Mr. Shaw. You have granted authorization for us to contribute a total of \$780 million.

The CHAIRMAN. That is all told? Mr. Shaw. That is all told; yes, sir.

The CHAIRMAN. For this program. And how much remains now

unappropriated?

Mr. Shaw. Unappropriated about 220, sir. The estimate of \$2 billion, including our contribution of \$780 million, which is based upon the cost-sharing formulas that have been approved by the NATO Council, does not take into consideration the full cost of the program because we do not share the cost of the land and local utilities and the other contributions that the host countries make toward the operation.

## JURISDICTION OVER STRUCTURES

The CHAIRMAN. At this time and when completed, who will have

jurisdiction over the structures?

Mr. Shaw. The structures being built with the infrastructure money are of course being built on the sovereign ground of the host countries. Consequently the host country has title to the facility. At the time of the Ottawa agreement, when infrastructure was first started, however, it was agreed by the member nations of NATO that the residual values would be considered at the time the international authorities no longer had a requirement for the facilities, so that it is something to look forward to, it is something that will have to be

worked out at the time it is determined that those facilities no longer are required to serve the purposes originally established.

The CHAIRMAN. Any questions, Senator Green, on this point?

# DEFINITION OF TERM "SLICE"

Senator Green. I would like to have some explanation given for

what determines the meaning of "slice"?

Mr. Shaw. The first infrastructure program, Senator Green, was approved by the Western union. You will remember the Western union organization was the predecessor to NATO. It included five countries, England, France, and the Benelux countries. They happened to use the term "slice," the first cut toward the total requirement, and the annual programs since that time have been known as It is simply a word used to designate an annual program.

Senator Green. Is it a question of time or a question of space?

Mr. Shaw. It is a question of a volume of work that is discussed in a certain period of time. For instance, the program that is now being discussed, now being considered in Europe by the NATO Council, is known as the seventh slice.

Senator Green. Every meeting would be called a different slice?

Mr. Shaw. Usually every year there is another increment of the total program approved by the Council, and that new increment is called an additional slice or an additional cut of the total requirement.

Senator Green. Then it is a question of time?

Mr. Shaw. It is more time; yes, sir.

Senator Green. But it is always for the same countries?

Mr. Shaw. Not necessarily. Of course, the requirements are determined by the international military authorities. It is the military requirement that determines the location of the project, not the political interest or the economic interest.

It is the military requirement for a given facility to support the international military plans, and consequently the Council approves that facility for the place where it is needed to meet the military re-

Senator Green. Then you cannot add slices together for any under-

standable total; can you?

Mr. Shaw. You can in terms of total dollar cost, but you cannot otherwise very well because we have had different cost-sharing formulas for most of the slices. It is a means by which we account for the expenditures.

Senator Green. They are not comparable in any way?

Mr. Shaw. They are not comparable.

Senator Green. Thank you.

#### PAYMENT OF LOCAL TAXES

The CHAIRMAN. Mr. Shaw, some question has arisen in the past about the payment of local taxes.
Mr. Shaw. Yes, sir.

The CHAIRMAN. What about that, what is the status of that matter

Mr. Shaw. The United States in 1951 conducted bilateral negotiations with each one of the countries who are involved in infrastructure as well as other work being undertaken by the agencies of the Department of Defense. At that time it was decided and agreed that the United States would not include in its infrastructure payments of any Federal taxes, any taxes of the States in which the projects were being built. Consequently on the basis of those negotiations, we have deducted consistently from all our infrastructure payments that amount that is estimated to represent the taxes involved in the bill.

Ultimately all the accounts will be audited and we will have a verification of the deductions now being made, and then necessary adjust-

ments one way or the other will be made.

We are not in any case paying taxes. The CHAIRMAN. Thank you very much.

Senator Mansfield, any questions?

Senator Mansfield. No questions, Mr. Chairman.

The CHAIRMAN. Any further questions? Now you are appearing on other matters? Mr. Shaw. Yes, sir.

I would like now if I may to talk on the support of international military headquarters. I also have a short prepared statement which I do not think I should read. The committee is familiar with the fact\_

The CHAIRMAN. You may put that in the record.

Mr. SHAW. Thank you, sir.

(The statement is as follows:)

STATEMENT BY MARKLEY SHAW, ISA COMPTROLLER, OFFICE OF ASSISTANT SECRE-TARY OF DEFENSE (ISA) ON INTERNATIONAL MILITARY HEADQUARTERS

Mr. Chairman and members of the committee:

One of the outstanding developments of NATO has been the establishment of the NATO international military commands and the provision of facilities to support their activities. SHAPE (Supreme Headquarters Allied Powers Europe), SACLANT (Supreme Allied Command Atlantic), the Channel Command, and the Canada-United States Regional Planning Group are the principal field commands under the military direction of the Standing Group and the Military Representatives Committee. Mutual defense assistance funds are used to support the activities of these supreme commands and their subordinate headquarters, as well as associated civilian agencies which have been developed to provide standardization and coordination of military plans and activities with civilian facilities and systems. The total cost to the United States of supporting the headquarters of these international military organizations for the 4-year period ending 30 June 1956 is estimated to be \$22.4 million.

It is interesting to realize that the NATO countries have agreed to provide at their own expense military personnel and the necessary logistic support for this personnel. The NATO military budgets recognize only the costs of providing headquarters facilities, civilian personnel essential to their operation, and mate-

rials and equipment needed for common use.

#### PROCEDURES IN DEVELOPING BUDGET

The procedures followed in the development of the international military headquarters budgets are recognized as outstanding examples of international accomplishment under multilateral agreements. The NATO Council has appointed a Military Budget Committee made up of civilian budget experts from the countries which wish to be represented and who serve at country expense. That committee over the several years of its operation has prepared financial procedures and instructions which control the preparation and content of the individual budgets. These are proposed by the individual commands, screened by the supreme commands, and submitted simultaneously to the Military Budget Committee and the standing group for analysis and review. The NATO Council authorizes obligations and expenditures on the recommendation of the Military Budget Committee.

The instances are rare when the military authorities and the budget authorities

fail to agree on the final budget recommendation.

Funds from contributing nations are called up by the Secretary General after approval of the obligational schedules submitted by the supreme commands, and payments are made by each country directly to the depository specified in the call.

The international military headquarters' accounts are audited by a special

team of three auditors selected from member countries by the NATO Council.

Mr. Shaw. The committee is familiar with the method I think by which the international military headquarters, and specifically I am referring to SHAPE and its subordinate commands and SACLANT and its subordinate commands, are funded multilaterally by the member nations of NATO.

The annual cost to the United States in 1955 was \$5,230,000, in 1956

\$3,500,000 and in 1957 \$5,300,000, is the estimate.

The low requirement for obligational authority for fiscal year 1956 was brought about by the fact that when the financial regulations were first agreed in NATO for the support of international military headquarters it was decided that there should be established a working fund, since it was thought at that time that the contributing nations might be slow in making their payments, and consequently the head-quarters would be embarrassed if funds were not available to pay current bills.

The United States contributed \$1,700,000 to that fund.

Because of the regularity with which the contributing nations have met their obligations for the support of the international military headquarters, the financial authorities have now decided—or did decide in fiscal year 1956—that that capital found could be liquidated, and consequently the requirement for cash from us in that year was \$1,700,000 less than estimated.

You will see that this is a rather consistent operation, that is to say, it neither goes up drastically or down. The requirement for money from the United States each year is about \$5.3 million. We are paying only for the types of costs which can be classified as common-use costs. Each country contributing military personnel to the international military headquarters contributes those personnel, their pay, and allowances at national expense.

So the only thing we pay for are the costs of operating the physical facilities occupied by the headquarters, and the civilian personnel, the light, heat and power, and other associated expenses of that kind.

Once again this is based upon an agreed cost-sharing formula which has recently been revised. Heretofore the United States was paying 45 percent of the capital costs and 22½ percent of the operating expenses.

Since most of the capital costs considered necessary to meet the requirements of the headquarters have been met, we recently revised the cost-sharing formula so that we are now paying a fraction over 23 percent for all expenses incurred by the headquarters.

Each year each of the subordinate headquarters prepares a budget in accordance with the very restricted regulations which have been

approved by NATO.

Those budgets are reviewed by the NATO military budget committee made up of very competent budget men from each one of the countries, and the recommendations for the expenditures, the contemplated expenditures, are made to the NATO Council where they are finally reviewed and authorized.

This is just an item in our program. You have not given it special authorization. It is not a limitation. We meet the requirements of this as we do the requirements of the other program categories.

The CHAIRMAN. Any questions?

Now you may pass on to your third subject.

## MDAP ADMINISTRATIVE EXPENSES

Mr. Shaw. The third subject, Mr. Chairman, is administrative expense to support the mutual defense assistance operations in fiscal year 1957.

The current estimates of the requirements for administrative expense money is \$24,926,000. The appropriation last year was \$23,250,000. As the committee well knows, the administrative expenses represented by this figure are only a portion of the total cost of operating the program.

The military departments are still bearing a large share of the cost involved. They provide the military personnel with the pay and

allowances for those personnel.

They are also paying for certain medical expenses including facilities of the military personnel and their dependents. The military appropriations pay approximately one-half of the travel expenses incident to the change of station of military personnel. I am talking about those military personnel who are assigned to the MAAG in the several countries.

Certain other costs are charged against programed funds. For instance, we are charging to offshore procurement the cost of operating the procurement offices of the Army, Navy, and Air Force for the work they do in connection with MDAP authorized offshore pro-

curement projects.

Incidentally, I have a short statement on administrative expense,

Mr. Chairman, which I would like to have put in the record.

The CHAIRMAN. Yes, sir; we would like to have you place all these in the record, all your statements, and this will go in also.

(The document is as follows:)

STATEMENT BY MARKLEY SHAW, ISA COMPTROLLER, OFFICE OF ASSISTANT SEC-BETARY OF DEFENSE (ISA) ON ADMINISTRATIVE AND OPERATIONAL COSTS OF MILI-TABY ASSISTANCE

Mr. Chairman and members of the committee: The administrative and operational costs of the military assistance program are paid from both the military department and mutual security appropriations. The military departments bear a large part of the total administrative and operational cost by using military personnel, equipment, and facilities in carrying out the military assistance program. Mutual security funds are used only to pay for those additional administrative and operational requirements not so met. These requirements must be clearly identified as additional to normal service operational costs in order to warrant the use of mutual security funds.

#### MILITARY APPROPRIATIONS USED

The military appropriations of the three military departments take care of such administrative and operational expenses as the following:

(1) Pay and statutory allowances of military personnel in the field and in

(2) Medical expenses, including facilities, of military personnel and their dependents.

(3) Approximately one-half of the travel expenses incident to the change of station of military personnel.

(4) Operation and maintenance of facilities for personnel and for recrea-

tion.

(5) Furnishing and maintenance of all military equipment except office equipment.

#### MUTUAL SECURITY FUNDS USED

Mutual security funds are used to pay the costs of administrative activities in the office of the Secretary of Defense and the military departments concerned exclusively with the military assistance program. The only field organizations in the United States receiving mutual security funds for administrative expenses are the Air Materiel Command and the Air Training Command of the United States Air Force.

Overseas, there are currently 3 regional groups and 35 MAAG's supported by

mutual security funds. The regional groups are as follows:

(1) Defense Affairs unit of the United States Regional Organization (USRO) in Paris:

(2) military assistance element, CINCEUR; and

(3) military assistance element, CINCPAC.

The estimate for administrative expenses in the mutual security appropriation proposed for fiscal year 1957 is based on requirements of departmental and field activities in the United States and 4 regional groups and 38 MAAG's over-An additional regional group (CINCARIB) and two additional MAAG's are included in the military assistance program for fiscal year 1957.

In many countries, the United States embassies furnish a large part of the administrative support for MAAG's and other military assistance activities, thereby avoiding duplication of functions. The Department of State is reimbursed for the cost of this support, as shown in the request for funds.

#### REASONS FOR INCREASE

The net increase in the fiscal year 1957 estimate over fiscal year 1957 can be attributed to:

Activities of new MAAG's.

2. Projection to a full-year basis of the cost of MAAG's activated during fiscal year 1956.

3. Increase in the size and scope of two MAAG's in the Pacific area.

It is estimated that approximately \$500,000 of the fiscal year 1956 appropriation will remain unobligated as of June 30, 1956, chiefly because certain MAAG's were not activated as originally scheduled. Should these MAAG's not be activated in fiscal year 1957, as is now planned, it is expected that comparable savings will result.

## Military assistance program administrative expenses

## [In thousands of dollars]

	Actual obligations, fiscal year 1955	Estimated obligations, fiscal year 1956	Estimated obligations, fiscal year 1957
Departmental and field	5, 635 10, 135 4, 626	6, 224 11, 820 4, 700	6, 425 13, 701 4, 800
Total	20, 396	22, 744	24, 926

The Chairman. Again, are there any taxes paid to the local government out of these funds?

Mr. Shaw. No, sir.

The CHAIRMAN. Any questions? Senator WILEY. What is the total?

Mr. Shaw. This year it is \$24,926,000, sir. This is the budget request for fiscal year 1957.

Senator Wiley. That covers how big an area?

Mr. Shaw. The world. It is not the true cost of administering the military assistance program. As I just said, the military appropriations themselves are carrying a large part of the cost of operation.

## ADMINISTRATION CORRECTLY INFORMING AMERICAN PEOPLE

Senator Wiley. Mr. Chairman, could I ask a question? Probably it is not relevant to this inquiry, but my mail provokes it. Yesterday Mr. Wilson and the head of the Armed Forces made it very clear that it was their view that every dollar we are spending here in military aid is in our national defense and it is not simply aid to other lands.

Now I get a letter this morning from a banker, complaining that he has been sold a bill of goods by a lot of fellows going around telling how we are wasting all the money, that we are getting nothing out

of it, and that foreigners do not appreciate this help.

Somehow or other it seems to me that what is necessary is for the administration to try to make it clear that while some money may be wasted, after all, as outlined by Mr. Wilson, if fighting men in Korea, have to be replaced by American fighting men, probably it would cost 20 or 30 times as much, and the same is true on Formosa.

And if these areas are still our outer line of defense as General Mac-Arthur and every general has said they are, then what is needed is for

the administration to get the facts to the people.

If it is imperative that the outer ramparts be manned as they are manned, as the President and others insist, then the people must understand. Otherwise the people will insist that this bill be cut.

If we are not wasting money we should be demonstrating that we are

not wasting, that it is an expenditure in savings.

That, I understand, is the position of Admiral Radford and Mr. Wilson and men who claim to know; is that right?

Mr. Shaw. It certainly is, sir; yes, sir.

Senator WILEY. Therefore, my question is: Isn't it the function of the Government to get the facts out so that the people will know that we are not just throwing away the money. The city of Milwaukee is only 5 hours away from Siberia by bombers. We have Nike sites around it. Are these sites necessary or not?

If the money provided in this program is wasted, we should cut it. If it is actually in our own defense, and if it is spending a dollar where you would save 10, that ought to be told and demonstrated to the

people.

Mr. McGuire. Senator, I would like to answer that if I may. I think your point is very well taken. Admiral Radford and Secretary

Wilson have both stressed that point in their public statements.

General Lemnitzer also stressed the point in his public statements. Your point about Nike around Milwaukee comes very close to me. I am from Cleveland, and as yet the people of Cleveland can't make up their minds whether they will give up the land for bases.

They want the protection, but they do not want it to hurt them in their particular situation. Unfortunately, we have a good many more people writing letters who do not have the responsibility for implementing this program than we have people responsible for implement-

ing it.

There is no question in my mind that the field of public relations is one in which we should do everything we can; and we are attempting to do that.

Also, as far as the program itself is concerned, I am told in section

508 there is a prohibition against propaganda in the program.

Senator Wiley. That is right.

Mr. McGuire. But I don't think you are talking about propaganda in terms of telling the good points of the program intelligently. The Department itself, through its officials, through those who are working on the program, through its public relations departments, is trying to stress the points you are making.

It is a very difficult task to convince people that it is in the city of Milwaukee, as you state, or in Cleveland, as I pointed out to you, that

things might happen.

## RESPONSIBILITY OF PROTECTING OURSELVES

Senator Wiley. I could mention some of the very big political names in our history who just a few months before Pearl Harbor on the floor of the Senate and elsewhere were saying that we would never get into war, there would never be this and that. I have talked 150 times in my State on this very issue in the last 15 months, and a lot of people are sorry on that account, because I call a spade a spade. But I am interested in preserving America, and it seemed to me that if what Admiral Radford and Secretary Wilson said yesterday is correct, and knowing other facts like the possibility of the intercontinental missiles—and knowing that they have one that will travel 1,500 miles—and knowing that the bombers are only a few hours away, it would seem to me that there must be a tremendous responsibility somewhere, a responsibility on all of us, so that we don't cut our own throats.

With an income of \$327 billion a year, what is a billion dollars in defense if it would save us from getting into a third world war?

We cannot sit back and think that we are living as we did 20 years ago. I came to Washington when Wisconsin was isolated, physically. But that is the challenge. I am sorry that I took the time, sir, but I realize that due to section 508 you people cannot go out and propagandize; but it seems to me there is a responsibility to use other agencies that can get the facts across.

Mr. McGure. Senator, I would like to point out to you that there has been some criticism in the past, I understand, about the information given to the various committees, which they could use in selling the good points of the programs—points which they knew and points with which they agreed. We have covered the particular point you are addressing yourself to in the unclassified statements so that you would have something concrete to use.

I think the fact that Admiral Radford and General Lemnitzer touched on this subject in their public statements is important. You gentlemen, who have a very close relationship with the people who must be sold, can recognize and have that point brought home.

You can speak with authority when you have the backing of Admiral Radford and people like Secretary Wilson who believe this very

sincerely.

## ASSUMING FAIR SHARE OF RESPONSIBILITY

Senator Long. Might I ask what you are doing about this situation, when these countries who have it within their ability to do a lot more to defend themselves than they are doing, proceed to pull up on us expecting that we will then go ahead and pick up the rest of the b. That seems to be the situation in some countries; does it not? Mr. McGuire. I do not know that I agree with you, Senator, that

that is a fair analysis.

Senator Long. I do not know of any set of publications that backs this administration's foreign policy more completely than the Luce publications. They have got the wife of the family over there as Ambassador to Italy, and yet read Time magazine—the last issue about the attitude taken by some officials of the German Government.

Mr. McGuire. One thing I think you will recognize and agree with: We are in the process right now of negotiating with Germany on their buildup and the various other aspects of the problem.

If I were a negotiator, if I were a German, I would start off certainly at the farthest point that I could in order to get together in

the middle.

I think that is just human nature in negotiating this problem. I suspect that the Germans will come to a fairly reasonable position.

We do have psychologically a situation in Germany where they have some fear of a military machine. They have been through that and their history shows that their country has had serious problems brought upon it by the military group.

I think they also have the fear—and I speak only personally of this—that the Germans are sitting pretty far out on the perimeter, and they wonder whether any amount of arms would save them if

something happened.

I only speak of that personally. It seems to me that the big problem that we are facing here, reverting back to the point that Senator Wiley made, that for a billion dollars, if that be the point, Is it good business to insure that these people do understand what our motives are and that we are determined to maintain the deterrent that we have built? I think it is.

And I say that to you as an individual who might have been on the other side of the picture sitting out in Cleveland and uneducated

in some of the problems.

I think the noneducation of our people is one of the problems.

#### AIRBASES IN ENGLAND

Senator Long. It seems to me one of the things you have to do is sell these foreign countries on this program. I was in England a few years ago. At that time we were trying to get bases constructed over We said, as I recall it, that we would put up 60 percent of the cost of building these modern jet airbases provided England would supply the land which she already had—she had had for her air force in the previous war-and she would then proceed to put up 40 percent of the cost.

Now she agreed to that. We went ahead and built about 6 or 8 or maybe 10 airbases. Then we wanted about 30 more bases. But without ever waiting to get any agreement on just what the cash distribution was on the rest of it, we insisted on charging blindly ahead and said we will work out some cash agreement; we do not

know what it will be but we will work out something.

Britain is supposed to contribute something to it. Meanwhile we will just pay the whole bill. From that point forward, once the bases were constructed without England agreeing to put up any particular dollar amount or any particular ratio, we were particularly at her mercy.

If she said she would give 1 percent we would have to take it on her terms. I think we are making a mistake in saving the other

nations unless they want to save themselves.

If they do not want to be saved—

Mr. McGuire. I am certainly not one who believes we should arbitrarily say we will pick up the check. However, as General Gruenther stated in another committee meeting, you have all kinds of people that make up a group. Some are progressive and will do what you would like to see them do. Some won't come along quite so fast, and you have to make the best of what is not a perfect bargain in getting a group like NATO together.

Now as far as England is concerned, she has some very serious economic problems which I am sure that one of the other witnesses

who is here this morning will discuss.

And the thing is not necessarily as simple as whether they will have a bigger defense budget and assume all of those costs. There are other factors.

#### COOPERATION IN PROGRAM

Senator Long. It seems to me we ought to try to educate some of these people as to where they would be if we pulled up on them. They

keep pulling up on us.

I am frank to say I recall in discussing this with somebody who came over here as an English debater 20 years ago. I asked him this question: If worse comes to worst do you think you can save yourself?

Now we will save this country, we will save America, but the

question is, can you save your country?

It seems to me as though they should face the prospect that if they do not want to do their share, we are not that much interested in saving them.

Mr. McGuire. I think the point you raise is good—and I speak from the defense point of view—but when you face them with the alternative of either doing it themselves or we might shut off assistance, there might be somebody else who would like to wean them away.

So we are not just dealing with a black or white area. It is a

grav area.

Senator Long. It seems to me you realize that if you have a good bargaining position you could make a better deal.

Senator Wiley. I think there is another thing that I would like to

get your reaction on.

The Chairman. Perhaps Mr. Elbrick, Deputy Assistant Secretary of State for European Affairs, might speak to some of the questions that have been raised by Senator Wiley and Senator Long.

If you have anything to say to it, please say it right now and we will be glad to hear from you.

#### UNITED STATES NOT SELF-SUFFICIENT

Senator Wiley. May I get something else in here?

In the first place, I have put on the record and I will put on the record again, the fact that we are not self-sufficient. According to former President Hoover we have only 9 out of the 30 vital materials on our continent in adequate supply. That is why we are stockpiling.

on our continent in adequate supply. That is why we are stockpiling. Now, then, we are giving credit to the tune of \$3 billion or \$4 billion to other nations. The dollars we loan or give to these nations always come back to the United States. They make a demand for production here. If we cut, that out, what effect would that have at once upon our own economy? I think it is very important for us to consider this in relation to the overall picture, because we know that while we say every other nation is in every other nation's backyard physically now, we also know that is also true economically.

Just start a great big depression in one of the countries in which we do a lot of business and see what happens when they do not buy

from America.

I do not think we can close our eyes to those potentialities. Consequently I think we have got to see this thing all the way through. Now with that, sir, I hope you will give me some light.

# STATEMENT OF C. BURKE ELBRICK, DEPUTY ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS

Mr. Elbrick. Senator, I would be the first to agree that the economic factors are extremely important in this situation. If I may, I would like to dwell for a moment—

Senator Long. Isn't that statement at complete variance with this administration's tight credit, high interest rate, hard money policy, taking the attitude that if you have any more cash going into the hands of the masses of our people, it will mean inflation?

In other words, it seems to me that that argument presupposes that we are incapable of consuming that which we produce here in this

Nation

Yet at the same time here is the administration pushing up interest rates on the theory that we are spending too much as it is now for ourselves

Mr. Elbrick. Senator, there are several questions here and I would

like to take them up in order, if I may.

the resources and the manpower that exist there.

I would like to say first, that from the political viewpoint, the question on how much our allies do for themselves as compared with what we are doing for them, and whether as you say they want to save themselves or not, I think probably we should bear in mind the fact that the reason why the United States pushed so hard for the North Atlantic Treaty Organization was originally because we felt that it was very important to our own defense, and not just the defense of Europe. We feel that the defense of the West is indivisable, and that the United States alone would be hard put to defend this country if it had not the assistance of the big power complex in Western Europe and

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These countries are all having economic problems. They have for some years now been straining themselves economically to meet big defense budgets.

Of course in absolute terms they have not done as much as we have done, that is true. But I do not think that they were capable of doing

as much as we have done.

Senator Wiley. Well, now, proportionately to their income they

Mr. Elbrick. That is true, sir. And I think today you will find——Senator Long. To what factor of their income now are you relating that statement, their gross national product?

## ALLIES SHARING DEFENSE BURDEN

Mr. Elbrick. That is right, sir, and I think that now you will find that for every dollar we put up to assist them—our European allies—

are putting up \$6 in the mutual defense effort.

This is a pretty big effort where you consider their overall capacity and we feel that with this program which has been going on now for some years, this military program for NATO, that we are getting more defense for less money than if we had to do the entire job ourselves on this side of the Atlantic.

We knew that in the case of some of the countries, the people are tired of supporting very heavy defense burdens. They would like to devote more of their resources to the development of their economies,

to raising standards of living and that sort of thing.

Therefore, I think that any new offensive or approach by the Soviet, for example, that would offer them some hope of eventually reducing the burden of armaments is bound to have some effect. They are bound to feel that perhaps each new Soviet overture is the straw that we should grasp at. They hope that perhaps this is the time when we can see the light and we can get out from under this very heavy burden that we are all carrying.

Now I say this advisedly because I do not think at all that the present governments of Europe agree to this or are fooled by Soviet tactics. They have not any idea that the threat which we first organ-

ized NATO to meet has disappeared.

In fact, about three weeks ago at the North Atlantic Council meeting in Paris, all the ministers representing the 15 governments at that meeting agreed on the necessity for continuing to maintain the

present general level of forces, to keep our guard up.

They also agreed to the necessity for exploring the new Soviet tactics to see just what we can do if there is any opportunity to come to some agreement or understanding, but at the same time they all agree that there is every reason to continue this military buildup, or at least to maintain the forces that have been built up, because they said the threat itself has not disappeared.

## UNITED STATES TROOPS IN ICELAND AGREEMENT

Senator Mansfield. Mr. Secretary, would that apply to the Icelandic Foreign Minister too?

Mr. Elbrick. The Icelandic Foreign Minister agreed also with that. This was a unanimous decision by the council, Senator.

Senator Mansfield. Then I understand both parties are trying

to get us out of Iceland at the present time?

Mr. Elbrick. Yes, two parties did combine to pass a resolution in the Icelandic Parliament calling upon the Government to renegotiate the agreement under which our forces are at the Keflavik Air

Senator Mansfield. To renegotiate it, and not to get out?

Mr. Elbrick. The apparent intention of this resolution was to get the American forces out of Iceland, although we hope this is not necessarily the conclusion that would be reached under such negotia-

Senator Mansfield. But I understand either country can give the other a year's notice to terminate those bases we have in Iceland.

Mr. Elbrick. That is right.

Senator Mansfield. It is my further understanding that in the past several weeks even the so-called Government Party has come out and reenforced the resolution previously passed by the Icelandic Parliament suggesting quite strongly that the Americans go home, and I am wondering about the attitude of the Foreign Minister of that country in view of your statement concerning their recognition of the need to continue NATO; to expand it in line with Secretary Dulles' use of the word "totality."

In other words, I believe what he wants to do is to bring out the

totality of NATO. I don't know what it means, do you?

Senator Wiley. What conclusion do you draw from the Icelandic

Senator Mansfield. That they want us to get out.

Senator Wiley. I know that but what is the definite conclusion that you draw?

Do you mean that that has lessened the world threat to us or

improved it?

Senator Mansfield. No, not at all.

Senator Wiley. It has increased it, hasn't it?

Senator Mansfield. It probably could increase it, though I imagine there is a question, or a question will arise as the development of these intercontinental ballistic missiles which you have mentioned takes shape, and perhaps the significance of Iceland as an airfield or

series of airfields becomes less important.

What I am getting at, Senator Wiley, is that the Secretary said all of the foreign ministers agreed that NATO was a good thing and that it should expand. They agreed to Secretary Dulles' suggestion that it should be looked at in its totality, a term which I do not understand as yet, and I wanted to justify that in relation to the desires of the Icelandic Parliament for us to get out, and the recent desire, according to the press, of Government Party itself of enforcing this resolution.

Senator Wiley. Is it still one of the significant defense spots for

America?

That to me is the important thing. You might give us your prophecy of what is going to happen 2 years from now on the world stage.

Senator Long. Over any long period of time you are going to have great difficulty maintaining large numbers of foreign troops, even American troops in peacetime in areas where they are not wanted. You are going to find it very difficult to keep those troops there.

Senator Wiley. I am not going to argue with that conclusion. I am just talking about the defense of America, what is important on that. We can go off on a thousand tangents and forget that America is not safe.

The Chairman. In the interests of time, gentlemen, I suggest that we let Mr. Elbrick, Acting Assistant Secretary of State for European Affairs, proceed, since we have gotten into Europe anyway, with such statement as he wishes to make to us.

Now you may put your statement in the record and speak to it if you

wish to.

Mr. Elbrick. Mr. Chairman, I have a statement that I would like to submit for the record if I may.

The CHAIRMAN. Yes, sir, you may do so.

(The statement is as follows:)

STATEMENT BY MR. C. BURKE ELBRICK, ACTING ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS

My purpose today is to discuss the aspects of the mutual security program that

relate to the European area.

With relatively minor exceptions, the proposed mutual security program in Europe is devoted entirely to military defense. It is primarily designed to maintain and strengthen the defensive power of the North Atlantic Treaty Organization. Except for a small-scale technical-exchange program, no economic aid, defense support, or other economic-type assistance is being proposed for any of the NATO countries covered by the European section of this legislation. (Greece and Turkey are dealt with under the Middle East portion of the program.) Economic-type assistance is requested only for two non-NATO countries, Spain and Yugoslavia, which face unusual economic difficulties in connection with their defense efforts. A moderate sum is also requested to meet special circumstances connected with the maintenance of our vital position in West Berlin.

This program is being put forward at a time when the contest between the Communist bloc and the free world has entered a new phase. You are already familiar with the current shift in Soviet strategy and tactics, which seems to involve a deemphasis of military techniques of aggression in favor of a stepped-up campaign to spread Communist power and influence by nonmilitary means. Since this change in Soviet tactics has been induced largely by the growing strength and unity achieved under our collective security policies, it is imperative that these policies be continued without any modification of purpose or relaxation of effort. Free nations will be required to give greater attention to erecting and maintaining adequate political, economic, and psychological defenses against communism, and to preserving the free world unity which the Soviet bloc is trying so hard to shatter. A large part of the mutual security program now proposed, as you know, is designed to assist friendly nations of Asia, Africa, and South America in economic development.

At the same time we should not make the fatal error of assuming that we can now ignore the military potentialities of the Soviet bloc. The Soviet military threat is still with us, and is likely to remain with us for a long time. While the recently announced reduction in Soviet forces is encouraging, we have several reasons for keeping our fingers crossed. First, in the absence of an effective system of inspection, we cannot be sure as to the nature and extent of the reductions that are actually being made. Second, we know that the Soviet Government retains the material means and the trained manpower with which to reestablish rapidly any military units that may be disbanded, perhaps without our knowledge. Third, even if the announced cutbacks occur, we must recognize that the Soviet Union and its satellites will still be maintaining huge military forces, far beyond any reasonable security requirements. We also know that they are making rapid strides in developing their nuclear potential and other advanced weapons. We could expect all the most powerful weapons in the Soviet arsenal to be deployed on the western front if war should break out there.

All these things add up to one clear conclusion. We and our allies have no alternative but to keep our powder dry. However charming may be the new music from Moscow, we cannot ignore the fact that Soviet aggressive capabilities remain enormous. So long as the Communists retain their capacity for military aggression, we cannot afford to base United States policy upon their announced intentions. We cannot gamble our very survival upon the mysterious mental processes of the men in the Kremlin.

Every Member of the Congress is already familiar with the size and cost of the national Defense Establishment which the United States is maintaining for the purpose of deterring aggression. But we recognized long ago that the preservation of security and peace is not a task for the United States alone. The free nations of Europe represent an indispensable source of support for us and the rest of the free world. The peoples of these nations are skilled in modern technology and are capable of developing and using modern weapons. They possess substantial industrial and economic resources. Because of their geographic position they are in a position to provide bases strategically situated for deterring or countering a Soviet attack. Most important of all, in my opinion, is the fact that these nations share our belief in freedom and our determination to make all reasonable sacrifices to assure peace. We have therefore joined together with 14 other nations in a common-defense system, the North Atlantic Treaty Organization. Through this alliance, we are seeking to achieve an efficient combination and utilization of our individual resources in a manner that will increase the security of all.

#### NATO HIGHLY SUCCESSFUL

I have no hesitation in saying we consider that NATO has been a highly successful military undertaking. Progress is reflected in the number of men under arms, the availability of weapons and equipment, the establishment of bases, the improvement of organization, training, and deployment, and similar advances of a strictly military nature. Despite political difficulties encountered by certain governments and occasional disagreement among members of the alliance, the hasic military operations of NATO have moved forward smoothly. These operations receive few headlines, since they are rarely spectacular. Once the major political and strategic decisions have been made, the day-to-day job of building. maintaining, and improving Western defenses has tended to become more routine and less exciting. But this job has lost none of its importance, and it is being accomplished.

Increasing attention is also being given to the political, economic, and cultural ties that bind the Atlantic allies. NATO has never been regarded as an exclusively military arrangement. The heavy emphasis given to defense activities in the past has been fully warranted by the dimensions of the Soviet threat, and it is reasonable to expect that the maintenance of up-to-date common defenses will continue to absorb a major portion of the energies and resources which member governments contribute to the alliance in the future. There is no justification for reducing the scale of our collective defense efforts, nor for seeking a "substitute" for the relationship that has already so successfully evolved. What the present international situation requires is not a substitute for established forms of cooperation, but rather an expansion of these cooperative relationships in such a way as assure tighter cohesion among free nations and to permit more effective counteraction against the current Soviet efforts to spread Communist influence by nonmilitary means.

It is no secret that the Soviet bloc is engaged in a major effort to divide and destroy the Atlantic alliance. It would be an excess of optimism to assume that this Communist effort has no prospect of achieving results. There are differences among allies. There are pressures in allied countries, as in every democratic country, to relieve the taxpayers of some of the burdens of defense. There is a certain amount of neutralist sentiment in Western Europe. To some extent, all these things lend themselves to Communist exploitation. But in terms of the policies and actions of allied governments it is noteworthy that the Soviet campaign of division and enticement has not yet produced any significant impact upon the solidarity of the Atlantic Alliance. Not only did the three Western governments at Geneva maintain unshakable harmony on fundamental issues, but their general viewpoint was also supported by the other Atlantic partners. Nor have the new Soviet tactics yet caused any noticeable relaxation in allied defense efforts. The combined defense expenditures, for example, of the Europersulation in the solidarity of the Europersulation in the solidarity of the Europersulation in the solidarity of the Europersulation in the solidarity of the Europersulation in allied defense efforts.

pean NATO countries are expected to remain at approximately the same levels

next year as this year.

We are determined to do everything reasonable and practical to insure the continuing solidarity and growth of the Atlantic system. Substantial progress has already been made in developing the practices of political consultation among the member governments. There were 5 NATO Ministerial Meetings during 1955—the largest number ever held in any 1 year—and 3 of these meetings were devoted primarily to a broad exchange of views on international problems of common interest. Meanwhile the United States is taking the initiative in encouraging an exploration of the further development of NATO. In a speech delivered April 23, 1956, Secretary Dulles declared that "the time has come to advance NATO from its initial phase into the totality of its meaning." At a meeting of the NATO ministers earlier this month, the other NATO governments endorsed this initiative and agreed upon a comprehensive examination of the possibilities of improving and extending nonmilitary cooperation among the NATO countries and developing greater unity within the Atlantic community. The recent designation of Senator George as special Ambassador demonstrates vividly the great importance which the United States Government attaches to this undertaking.

One very hopeful development in Europe is the revival of the movement toward political and economic integration among the European nations themselves. The Congress is already familiar with the successful establishment of supranational authority over the production and marketing of coal and steel. The movement received something of a setback when the plan for a European Defense Community failed to receive parliamentary approval, but is now showing new signs of life. Several eminent European statesmen are currently working on proposals for a multinational pooling of atomic power and also for further steps toward a broad common market. As you can understand, we are watching these efforts with the greatest interest and sympathy. There can be no doubt that the achievement of a closely integrated European community would tend

to consolidate and strengthen the Atlantic alliance as a whole.

In reciting the progress made through NATO, it is not my purpose to imply that all our difficulties have suddenly vanished. We will continue to face a great many problems. NATO is not the kind of operation that we can ever expect to wrap up and forget about. It requires constant attention and constant effort by all members of the alliance, including ourselves.

#### NATO'S MILITARY PROBLEMS

The mutual security program proposed for fiscal year 1957 is directed toward two of NATO's most pressing and most continuous problems—the maintenance and the progressive modernization of its military defenses. Even the best military system cannot stand still. Weapons and equipment wear out or become obsolete, and military plans require constant revision. These problems have always existed, but they have been greatly magnified by the incredible sweep of modern technology.

Another current defense problem receiving NATO attention, of course, is the buildup of German military contingents. Since this buildup is beginning from scratch, many different things have to be done, including the actual recruitment, organization, equipment and training of military forces. This process will necessarily be gradual, but steady progress is being made. The mutual security program recommended for fiscal year 1957 contains no additional funds for the German buildup, since the currently planned United States contribution to this program has already been obligated from previous appropriations.

The military problems I have mentioned are now receiving intensive attention by NATO military planners. The defense ministers of all member countries, including Secretary of Defense Wilson, held a meeting in October to consider some of these problems, and a subsequent meeting of senior military authorities and the NATO commanders was completed in Paris around March 1. The central problem upon which both these meetings focused is the adaptation of the NATO defense system to the ever-changing requirements and techniques of modern warfare. This problem is gravely complicated by the limited financial resources available. While it is clear to all that this adaptation is essentially evolutionary and that no sudden and drastic displacement of either plans or machinery is in prospect, it is necessary that the process move forward with minimum delay.

Most of the funds requested for NATO during fiscal year 1957 fall under the heading of "Maintenance" They will be used to service, repair and replace

facilities and equipment already produced and to provide training in the use of such equipment and facilities. Some of the funds, in addition, are designed to make more modern weapons and equipment available to our allies, with particular emphasis on the improvement of European air defenses and early-warning systems.

There are approximately one-half billion dollars in this program set aside for advanced weapons, a good portion of which has already been planned for allocation to Europe. The value to the Europeans, both in military and in psychological terms, of acquiring guided missiles and more advanced types of aircraft and electronic equipment cannot be overestimated. Furthermore, it is to our own benefit that we make these more modern weapons available as a means of ensuring that American troops in Europe will have at their side wellequipped forces equally able to mount an effective defense.

There is no question but that the Europeans have become increasingly concerned about the rapid changes in the technology of modern warfare and their limited ability to keep pace with the newer developments. Apart from the British and to a lesser extent the French, our European allies do not have the resources necessary to devote to the large-scale research and development of new Consequently, most European countries are looking primarily to the United States to help them keep pace with the growing capabilities of the Soviet bloc forces. By sharing the newer weapons as they are developed and produced, we can make it possible for them to participate more effectively in the defense of Western Europe and thus to strengthen the deterrent power of the alliance.

Officials of the Department of Defense will be prepared to give you more detailed information about the projected use of these funds and the military pur-I will confine myself to a few general observations. poses to be served. I think it is obvious that the NATO alliance, one of the mainstays of our security. can be preserved over a long period of time only if our European partners remain convinced that it offers them real protection and that their own contributions to the common defense serve a useful purpose. This conviction, in turn, will depend upon a reasonable assurance that their defense efforts will actually be effective under modern conditions and techniques of warfare. Our European allies know they will face modern weapons if attacked. They must have assurance that they will have the most modern weapons of defense. At present there are certain key items that they cannot produce for themselves and cannot readily accumulate the dollars to buy. Unless they are able to secure and maintain these things, they will feel that a large part of what they are able to do for themselves would be waste effort.

#### ALLIES SHARE DEFENSE BURDEN

I want to emphasize the fact that the things our allies are doing for themselves add up to a very substantial total. Two years ago, Secretary Dulles pointed out that our European allies were spending for defense purposes the equivalent of \$3 from their own budgets for every dollar's worth of aid received from the United States. A recent analysis by my staff indicates that these countries are now spending the equivalent of \$6 of their own money for each dollar of United States aid received. Their total defense expenditures last year came to more than \$12 billion, which is an altogether creditable showing for a group of nations whose combined gross national incomes add up to less than one-half of the United States national income. These expenditures, together with the men they have placed under arms, the output of their factories and laboratories and the bases they have provided, add substantially to the security of the United States as well as the security of Europe. It seems to me a matter of ordinary common sense—a sound business proposition, if you will—for the United States to continue providing certain weapons, equipment, and training which will multiply the effectiveness of these European efforts and produce more total defense than would otherwise be available.

This is the fundamental justification for the whole program. Without the program of the character and magnitude being requested, some of these countries would undoubtedly feel that they just couldn't accomplish enough to make their efforts and sacrifices worthwhile. Some would lack many key items of equipment and would face insuperable difficulties in trying to build balanced forces capable of effective action under modern conditions of warfare. defensive power produced by their own commitments of money and manpower would be greatly reduced, and there would be almost irresistible temptation to reduce these commitments. The final result would be a drastic weakening of the whole Atlantic System. In terms of the total defensive power available to America and the free world, we would clearly lose more than we would save by

not having this military-assistance program being requested.

Please understand that I am not making gloomy predictions. On the contrary, I believe the general outlook in Europe is fairly bright. I only want to emphasize the fact that NATO represents a tremendous asset for the security of the entire free world, including our own country. We have already made a large investment in protecting and increasing the value of this asset. The program now being presented to you is designed to make certain that neither the investment nor the asset itself is lost.

#### AREA FUNDS

I mentioned earlier that a moderate portion of the assistance proposed for the European area in fiscal year 1957 is designed to provide economic-type support to certain non-NATO areas. The largest amount is proposed for support of the Spanish defense program. Spain's defense efforts are closely related to the United States-Spanish agreements for the construction and joint use of a series of important strategic air and naval bases. Therefore, we have a considerable interest in the effectiveness of these efforts. We also recognize that Spain, which did not participate in the Marshall plan nor the early MDAP programs, faces unusual economic difficulties in carrying out its defense plans.

A smaller amount is proposed to support Yugoslav defense efforts. While Yugoslavia is not allied with the United States, we have a definite interest in Yugoslavia's ability to maintain the independent position which it has achieved with great risk and sacrifice. Yugoslavia is the only country that has successfully broken away from the Soviet camp. The measure of this success is best illustrated by the fervent campaign which the Soviet rulers are now waging to

entice Yugoslavia back into the Soviet spider's web.

Despite these Soviet blandishments, we believe the Yugoslavs are truly anxious to maintain their independence. At the same time, we know that the Yugoslav Government continues to face grave economic difficulties, which are aggravated by the fact that Yugoslavia is already spending a larger percentage of its national income for defense than any country in free Europe. Yugoslavia's need for outside assistance remains acute, and this need helps to explain why Yugoslavia has assumed the risks of accepting certain offers of assistance from the Soviet Union. Under these circumstances, the question confronting the United States is simply this: do we want Yugoslavia to become wholly dependent upon Soviet aid and, in the process, to be sucked into the quicksand of Soviet economic influence, or do we want Yugoslavia to retain its ability to pursue an inde-In terms of our own national interests, I should think the anpendent course? swer to this question is fairly obvious. We want Yugoslavia to stay independent, and to serve as a vivid reminder to the whole satellite area that it is still possible for other subject peoples to regain national existence.

As in past years, we are also requesting special economic assistance for programs in West Berlin. The strategic and psychological importance of this key Western outpost is well-known, especially to those members of the Congress who have had an opportunity to visit the area. West Berlin will continue to face extraordinary economic difficulties because of its geographic position, and we are determined to provide all necessary support to alleviate these difficulties and

assure West Berlin's survival.

In conclusion, I merely want to repeat my conviction that the European section of the proposed Mutual Security Program represents a good investment in our own national security. It has paid off in the past, and we have every reason to anticipate that it will pay handsome dividends in the future.

Mr. Elbrick. I have a few remarks that I would like to make orally also if I may, Mr. Chairman, as a sort of summary of the statement and some of the high points that I think should be brought out here.

I am here to help defend the European part of the MSP program, which I regret to say I noticed in the morning papers has suffered a severe cut in the House Committee.

Our program is approximately \$850 million excluding Greece and Turkey. This is about \$760 million for military assistance and about \$90 million for economic assistance.

Now we think that this program is a very important one and a very important part of the total overall program.

As I said a few minutes ago, we do not think that the United States should be required or should expect to try to defend the free world alone. Europe has great assets. I know that you are all aware of these assets. Their geography is extremely important. They have very large and important resources, and of course they have the manpower that is being very helpful.

We feel that this big power complex, this grouping of nations in

Western Europe must remain on the side of the United States.

Now it is true 90 percent of the program is in the form of military assistance.

The CHARMAN. That is in Europe?

Mr. Elbrick. Yes, sir.

I am speaking of the European program now, sir. The CHAIRMAN. Exclusive of Turkey and Greece?

Mr. Elbrick. That is right, sir. This 90 percent is either a contribution to agreed military projects like infrastructure or generally equipment which the countries themselves cannot produce or have not the dollars to buy without seriously draining down their already low dollar reserve.

Now the margin of United States equipment provided through aid is a very critical component, tanks, planes, electronics, things of that sort. They supplement what the Europeans themselves can provide in the way of supplies and less complex equipment.

## 'UNITED STATES NEEDS EUROPEAN FORCES

We need the European forces very much. We need them for various reasons. Certainly in case of war we would need them. They would be very essential it seems to us, even in peacetime.

They are a stabilizing influence. Finally, they can and do protect and support our own nuclear retaliatory capability deployed in the

European area.

The Defense Department representative here will give you the details of this program. I will just say that there are two components really. One is maintaining existing equipment in the hands of our allies, and the other is to provide newer types of weapons like guided missiles, more advanced planes etc., to keep pace with the Soviet developments.

## EUROPEAN PROGRAM AMOUNTS

Approximately \$90 million is requested for economic aid to Spain, Yugoslavia, and Berlin, and there is a small regional technical assist-

ance program.

We feel that these programs, as small as they are are nevertheless vital and necessary. In conjunction with our base program in Spain, it is necessary to assist the Spanish Government economically to maintain a military establishment which is somewhat beyond their resources. Our aid is really in the nature of a quid pro quo in return for their granting these bases to us.

In Yugoslavia a similar situation exists in the sense that the Yugoslavs, who have broken away and maintained up to this time their independence from the Soviet orbit, are also faced with the necessity of maintaining a military establishment which is beyond their capabil-

ities.

Insofar as Berlin is concerned, I do not think I need go into the fact that chiefly for political reasons we feel it is essential that we maintain our foot in the door in this forward island in the Soviet sea.

Senator Long. How much are you asking for Berlin?

Mr. Elbrick. Twelve million dollars. I might go into Yugoslavia particularly for a moment, because there have been many questions asked about this program.

Senator WILEY. How much?

## YUGOSLAV PROGRAM

Mr. Elbrick. The program for Yugoslavia is \$30 million for economic aid. [Deleted.] We ask ourselves what would happen if we discontinued this aid program to Yugoslavia. They have already been receiving loans from the Soviet Union, and cutting off aid to them now from the United States would, we think, make them completely reliant on the East.

Senator Wiley. Is that military aid?

Mr. Elbrick. This is economic aid, sir. Senator Long. Is that a grant or a loan, that \$30 million?

Mr. Elbrick. It is grant aid.

Mr. VAN DYKE. We may later want to negotiate with the Yugo-

slav Government about that question.

Senator Long. It is my impression that if it is worth it to them to have it done at all, it would be worth it to us to make just a long-term loan where we would get some of that money back and help somebody else who may need it worse than Yugoslavia later on.

Mr. VAN DYKE. During the past year we have placed some of the money on a loan basis with Yugoslavia and would anticipate this

would be repeated.

Senator Wiley. It is a credit, and they are buying stuff from America; isn't that so?

Mr. VAN DYKE. Exactly, sir.

Senator WILEY. What are they buying?
Mr. VAN DYKE. For the coming year we have scheduled, out of the \$30 million, \$20 million in surplus agricultural commodities.

Mr. Elbrick. We think that the continued independence of Yugoslavia is extremely important to the Western World. We think that it acts as a sort of a magnet or attraction, in a sense, to the other satellite countries of eastern Europe, and we very much fear that if we do not continue this program, that this will tend to throw Yugoslavia back into the arms of the Soviet Union.

#### FRENCH FORCES TO ALGERIA

Another problem which has also received some attention recently is the question of France's deployment of forces to Algeria, which of course does serve to weaken the NATO military posture on the Conti-These forces have gone to Algeria, as the French Government has announced, for the purpose of restoring order so that the French may negotiate a settlement of some kind with responsible leaders in Algeria.

They have taken with them also some light equipment which has been supplied under the MDAP program, and we have, at the request of the French Government, lent to the French some helicopters which they consider to be essential to their operations in the rugged terrain of Algeria.

Now we basically support the French in this move because north Africa is of strategic importance to NATO, and trouble in that area

of course exposes the southern flank of NATO.

General Gruenther, I believe, has stressed this point several times. The NATO Council considered this problem and decided that it was in the interests of the North Atlantic Treaty Organization for France to restore order in the area. I should say here that the French have assured us and the other members of NATO that those forces that were removed from the Continent are to be used in Algeria only so long as the situation demands it, and that they intend to return these forces to the Continent as promply as possible thereafter.

Of course, these forces are earmarked for NATO, and they would be available in the event of an emergency for redeployment to the Con-

tinent.

Now it is a very complex problem in Algeria, and one that the French, as you know, are finding extremely difficult to solve. There are 1,300,000 French colonists there. I think that the proportion to the Moslems is about 1 to 8 or 9. However, it is a large number, and there are millions of Algerians themselves, or Moslems, in Algeria who are willing to work out a settlement with the French, but they are being terrorized by a small number of fanatics. The first problem, therefore, is to restore order. The French realize, however, that the ultimate solution is definitely not a military one, but rather a liberal reform program and more self-determination for the people of that country.

It is too early, I think, to predict what the outcome will be. The terrorism continues, but we certainly hope that the French will move toward a solution. Meanwhile, we feel that the United States must continue to give such suport as it can to the reaching of a liberal solu-

tion of the problem.

## FEAR OF NUCLEAR WAR ELEMENT IN SOVIET STRATEGY

I have already touched previously on this question of a drift, in one sense, toward neutralism and pacifism in Europe. But I think perhaps this represents primarily the increasing attention that the people of Europe are giving to the possible destructiveness of a nuclear war.

I think this is one of the manifestations of that fact. This fear of nuclear war is undoubtedly a large element also in the new Soviet tactics. The President has said that there is no alternative to peace. We are trying; we are doing our best to meet the Soviet halfway if there is a chance of negotiating, of reaching some understanding with them. We are trying to meet them halfway without appeasing them, and certainly without weakening our military posture, which we consider to be essential.

We must keep our guard up, we feel, while we are exploring these different avenues of approach toward relations between the East and

the West.

The Communist Party has made some gains in France, Greece, and Italy. These gains stem chiefly from economic conditions and also from peculiar systems of party ballotings in some cases. As in the case of France, for example, the French Communist Party in the last election gained some 50 seats in the national assembly, but actually its percentage of total votes was less than in the previous election.

The NATO governments, we believe are not really fooled by the new Soviet tactics, although there are some people—individuals and groups—who may be, and there is some growth in this feeling that we can make an accommodation—a feeling that there is really no longer the same urgent need to emphasize the defense aspect of the North

Atlantic Treaty Organization.

But the Europeans know that there is a large force, a great military force, behind the Iron Curtain in spite of the fact that certain announcements have been made recently to the effect that these forces are to be reduced. They know that military machinery still exists and continues to improve in modern weapons, in modernization of its forces. They also do not know what the results of the announced reduction in forces will be. This still remains to be seen.

## EXPANDING FUNCTIONS OF NATO

At the Paris meeting of the North Atlantic Council this month, as I have already said, the ministers reaffirmed their interest in the continued maintenance of the defense forces that have been built up in NATO, but at the same time realized that there were other aspects of the Soviet offensive which should be met and should be met in unison by the North Atlantic Treaty Organization if possible. For that reason they have appointed a committee of three ministers to explore means of increasing the unity of the Atlantic alliance and of extending and expanding the activities of the organization in the nonmilitary fields.

Mr. Chairman, I think that is all I have to say.

I would be glad to try to answer any questions that you gentlemen want to ask.

Senator Fulbright. Would you elaborate on that last statement? What do you expect the NATO to do? And how are you going to

expand it? What functions would it assume?

Mr. Elbrick. This is a question, Senator Fulbright, that is being explored in the various governments of NATO right now. There have been many suggestions as to ways of doing it. They have been rather vague. As you know, most of them have dealt either with increased political consultation within the organization to discuss common policies and policies of mutual interest before taking action, or with suggestions that economic policies should be coordinated within the NATO Council. There has been a suggestion also that NATO itself might act as the instrument for carrying out certain economic policies, particularly in relation to the underdeveloped areas. There have been no decisions as yet, Senator, on this at all.

Senator Fulbright. What I mean is what did the Secretary of State have in mind when he made statements about these functions? What do you want it to do? I am not asking you to speak for NATO but you can speak for our own policy can't you? What do we want

them to do?

#### REASONS FOR EXPANSION

Mr. Elbrick. Yes. Our own policy is not well defined yet at this point, Senator. As I say, we are working on this now. We have just established a few days ago a special task force within the State Department to work on this matter, in conjunction with Senator

George.

I think, generally speaking, what the Secretary had in mind is the fact that unity within and the continued existence of the North Atlantic community is of great importance in itself. As you know, the United States has been drawn into two world wars. There have been other wars in Europe. Europe has been the strongest single power complex in the world, and yet it has weakened itself by divisive quarrels and fights and arguments and wars. Many of these divisive tendencies still exist. Therefore, it seems in the best interest not only of the Europeans themselves but also in the best interests of the United States to strengthen this organization to better deal with these divisive tendencies.

Now, the cement of fear that existed at the time that NATO was originally established and was reinforced to a great extent by the

Korean war has now begun to liquify somewhat.

The change on the part of the Soviet in its tactics—the benign look, the genial look, the less warlike attitudes—that have been apparent for some months, I think, without any doubt has had this effect on the North Atlantic alliance.

Therefore it seemed essential not only because of the Soviet change in tactics but also because we want the North Atlantic community to continue, it seemed essential to find some way of further unifying

this group.

Reference can be made to the organization of American States. The organization of American States is in a position to settle disputes among its members. The North Atlantic Treaty Organization is not. The question of Cyprus and the question of North Africa are both matters that NATO might have considered and might have done something about but was not equipped nor authorized to do so.

This is rather rambling, Senator, but this is the type of thing I think that the Secretary has in mind: To better coordinate our policies, perhaps, in all parts of the world, to be better able to settle disputes among the members of the North Atlantic Treaty Organization when

such disputes break out.

Mr. Chairman, as you know, Mr. Van Dyke, of the ICA, and Mr. McGuire, of the Department of Defense also are here to testify on this European section of the program.

#### EUROPEAN MANUFACTURE OF MILITARY ITEMS

Senator Long. As I understand it, Mr. Elbrick, you said that \$850 million would be spent in Europe for military aid based on 2 factors: One, that these items cannot be made in Europe, and two, that the Europeans don't have the dollars to buy. Now, as a practical matter, are there many of these items that can't be manufactured by these European countries? What items do you have in mind that they are incapable of manufacturing there?

Mr. Elbrick. I was thinking of the heavier items, the more advanced weapons, Senator, that have been developed in this country and have not been developed in Europe at all so far.

I think perhaps as to the technical aspects of this, Mr. McGuire may be able to give you more information about particular weapons.

Senator Long. If we showed them what we have developed and made, is there any real reason why they cannot manufacture those things over there?

Mr. McGurre. I think, Senator, that they do manufacture quite a

few things over there.

For instance, the British are manufacturing planes.

I think the British have made some steps on the jet-engine type of operation and the French likewise. The Germans coming in I think will provide a substantial area where manufacturing can take place.

I have a high respect for the German ability in that field. The Italians have done well. As a matter of fact, under one of our programs they now have a lightweight fighter aircraft that we have great hopes for. This aircraft is designed to land, if you will, on a cow pasture type of operation. It does not have long-range capabilities but it is a short-range weapon that we need over there.

#### LACK OF DOLLARS FOR MILITARY PURCHASING

Senator Long. If those people had the dollars to pay for these items, they could certainly purchase on their own account anything that they might want to acquire from us. That is your second point. Now when you make that statement, are you considering the enormous amount of cash that is being spent in those countries as a result of maintaining these large American forces there?

For example, I saw recently that that is putting about \$5 billion a

year into circulation in those European countries.

Do you have any knowledge about what the cash balances are between this country and those European countries when you consider the amount of money that we are spending in maintaining military forces there?

Mr. Van Dyke. We have available, Senator, both the gold and dollar balances of each one of these countries and the amount that the United States has spent over the past several years for the support of its own forces in Europe, and either one of those can be inserted in

the record or given to you now.

Senator Long. Can you give them to us? I would just be curious to know if they actually have an unfavorable dollar balance as of now, if you consider this item which is obviously there, the tremendous amount of money we are spending, dollars that are spent in Europe on troop pay, housing, and various other expenses.

Mr. McGuire. Senator, you have a point.

Senator Long. Do you have those figures? I would like to know what they are.

Mr. Van Dyke. I thought they were in the book. I have them.

Senator Long. Is that \$5 billion somewhere within 20 percent of

the figure?

Mr. Van Dyke. The total receipts of western Europe from United States Government activities during the fiscal year 1955 would be roughly \$2½ billion excluding military end item deliveries.

Senator Long. How many troops do you have over there? Do

vou have that figure?

Mr. VAN DYKE. That is a good deal more than just the troop expenditures, Senator. That also includes, for example, the expenditures for infrastructure as Mr. Shaw indicated.

Senator Long. How many troops do you have over there in Europe

now?

Mr. McGuire. 320,000 roughly.

#### DOLLAR BALANCES

Senator Long. Would you give us your breakdown of your figures to see whether or not they are taking in as many dollars as they are

Mr. VAN DYKE. I can also give you the figures on their dollar bal-

ances, Senator.

At the present time Europe as a whole is accumulating dollar bal-To cite a couple of illustrative figures, on December-

Senator Long. What are the overall dollar balances for fiscal 1956,

for example? Do you have that, or any calendar year?

Mr. VAN DYKE. For the 14 MSP countries, roughly \$111/2 billion, excluding Switzerland.

Senator Long. That is 11.5 billion. They did not accumulate 11.5

billion though, did they?

Mr. VAN DYKE. That is total holdings. Their accumulation between December 31 and February 29, 1956, two months, is exactly

Their accumulation between June 30, 1954, and June 30, 1955, was

about \$1 billion.

Senator Long. So actually they do have the dollars at the rate of about a billion a year. Are those the latest figures you have on that subject as to whether they are accumulating or divesting themselves of dollars?

Mr. Van Dyke. These are the latest published figures; yes.

Senator Long. Now, based on that, then, it cannot be said that they don't have the dollars with which to buy; can it? If they are accumulating dollars at the rate of a billion a year.

Mr. VAN DYKE. That is an overall balance. Senator Long. Yes.

Mr. VAN DYKE. And I think you must discuss it not in terms of the overall although that gives you some guidance, but in terms of specific situations.

Senator Long. I suppose there is a lot of trade between those coun-

tries themselves.

Mr. VAN DYKE. Exactly; but the United Kingdom, for example, during calendar 1955, lost \$640 million of its reserves. Certain other countries' reserves also declined.

I would be glad to insert that information in the record if you want

it by countries. (See chart on p. 925.)

Senator Long. Yes; I would like to have that.

#### POSSIBILITY OF SELLING EQUIPMENT FOR LOCAL CURRENCY

Mr. McGuire. Senator, you may be interested to know that Mr. McNeil, who is the Comptroller of the Department of Defense, and I have been investigating the possibility of selling equipment and being paid with local currency. We do not believe under the existing

laws this can be done.

For example, in a country where our troops have requirements for the local currency, either where we use it to buy railroad transportation or other items or where our troops need it to just spend for their own pleasure, we could offer to sell these countries military equipment for local currency up to the amount of our local currency require-

We would take that local currency into the MDAP accounting system and we would turn around and sell it to the Department of Defense

At the moment, the Department of Defense; that is, the Army, Navy, and Air Force, are buying certain quantities of local currencies, paying for it in dollars.

We would then take the dollars obtained from the Department of

We would then take the domain.

Defense and turn them over to the Treasury.

It is oversimplified. the net of that would be that we might have another means of trying to attract governments to buy his equipment, another way of getting them to support themselves more.

It has some very attractive possibilities, we think, of saving the

United States Treasury some money.

Senator Humphrey. Would you repeat that? That is oversimpli-

fied perhaps, but I find it very difficult to understand.

Mr. McGuire. We have not worked out all the details of this. It is a general idea at the moment. Right today we have disbursing officers abroad exchanging dollars to get local currencies.

They must have the local currencies for our doughboys who go up to a window when they want to go on leave or when they need some

local currency to spend, so they buy it with dollars.

That is one type of the need for local currency. As an example of another need, if I were to go to Europe tomorrow they would have to buy transportation when I traveled in Europe and pay local currency The Department of Defense itself, I am speaking of the Air Force, Army, and Navy, has requirements for local currencies.

What Mr. McNeil and I are trying to work out is where we have a known requirement of local currencies in an area; we could negotiate with the countries to have them buy military equipment, paying with

their local currency.

Then, having had a commitment from Mr. McNeil that he needed that much local currency, I would take the local currencies and exchange them with him for dollars, and the dollars would revert to the The net effect of this rather involved transaction is, first, that I have given the fellow an easier bargain from his point of view, because it is in his local currency, and second, we would, instead of giving grant aid, be given reimbursable aid.

How far it would work I do not know. It is pretty much in the realm of a gleam in the eye at the moment, but both Mr. McNeil and I think it is something we had better work on pretty hard because it looks as though it will save the Treasury of the United States some

money.

Senator Long. Can you do that in such a way that those soldiers when they come and get that local currency don't take a beating on it? Mr. McGuire. This would have to be on a fixed basis of exchange,

so that the Department of Defense neither benefits nor loses.

The purposes of this would not be that the services got a better rate of exchange or that the soldiers got a lesser rate of exchange. It would be the same rate they would normally get. It is a bookkeeping transaction in effect to offer a more attractive basis to those governments who want to buy rather than get grant aid.

What I have outlined is a concept. There are several variations as to the procedures that might be used. For example, MDAP could deposit the proceeds of sales for foreign currencies directly with the Treasury and Defense could procure its foreign currency requirements

in much the same manner as at present.

It is not something we have worked out in detail. I want to emphasize that.

#### ATTITUDE TOWARD UNITED STATES TROOPS ABROAD

Senator Long. When are we going to reduce this quarter of a mil-

lion troops of our own that we have there?

Do you find or have any information to believe that that perhaps might be causing some bad will, that number of American troops over there, or do you think they are getting along very well with the local

people?

Mr. McGuire. I have heard nothing of their not getting along well. There can be isolated instances. You have a GI who drives a car, for example, and gets into an accident. That gives you some problems. But I talked with General Cook last January and his feeling was that they were getting along very well over there, overall.

Senator Long. You know of no plans to reduce the number of

American troops over there in Europe?

Mr. Elbrick. No, sir. I would like to comment just briefly on

I agree with you there is always a danger when you station a large number of troops in a foreign country that it is going to have some repercussions. You will recall in France particularly in one period there was this movement "United States go home" which we think was not due to any responsible elements in France at all but rather to the

Communist Party.

These things occur from time to time, but generally I think the attitude toward American troops is pretty good throughout Europe. The one big exception, of course, is not in continental Europe but in Iceland where we have had some recent difficulties, and that is due really chiefly to the fact, that stationing that number of United States troops in Iceland is like stationing 6 million foreign troops in the United States. That would make quite an impression here.

Senator Long. Thank you.

The CHAIRMAN. Are there other questions?

Mr. Van Dyke, have you a written statement that you wish to put in?

# STATEMENT OF STUART S. VAN DYKE, DIRECTOR, OFFICE OF EUROPEAN OPERATIONS, INTERNATIONAL COOPERATION AD-MINISTRATION

Mr. Van Dyke. Yes, sir; I have a formal statement which I would like to submit.

The CHAIRMAN. Your formal statement may be put into the record. (The statement is as follows:)

STATEMENT BY STUART H. VAN DYKE, REGIONAL DIRECTOR FOR EUROPE. INTERNATIONAL COOPERATION ADMINISTRATION

The nonmilitary aid request for Western Europe for fiscal year 1957 centers on four special situations. It thus differs from requests from other areas where ICA programs are of a regional character; it also differs from the regional programs which the United States has conducted in Western Europe in the past.

As a result of improved economic conditions, the majority of countries in Western Europe have not received defense support or related economic aid for some time. During the past year, economic conditions in Europe have generally continued to improve. More people are employed, many industries are working to capacity and living standards are rising. Industrial production for the OEEČ countries today is 38 percent above 1950, agricultural production is up 22 percent for the comparable period, and total OEEC trade is 87 percent higher than it was in 1938.

In fact, the prospect in economic terms, is not under utilization of resources, but rather excessive competition for available resources. Thus, a number of countries, particularly in the north, are faced with recurrent threats of inflation. This has resulted, in several cases, in losses of gold and dollar reserves at a time when the volume of world trade requires, if anything, increased reserves. The United Kingdom, for example, lost \$640 million in reserves in calendar year Although there have been slight gains in 1956, the United Kingdom reserves at \$2.25 billion are at their lowest point since the spring of 1953.

## BATE OF ECONOMIC GROWTH

There also remain certain other elements of concern. The most serious among these is the comparative rate of Western Europe's economic growth. Fifty years ago the average European produced and consumed about as much as the average American. Today America's productivity is at least twice as great as Europe's. Similarly, the best available estimates indicate that the rate of economic growth in Russia during the past 5 years has been about double that of the western world. Both of these developments have tended to reduce the relative economic strength of Western Europe compared to the rest of the world. They are, therefore, of long-term security interest to the United States.

The four special situations for which defense support and related assistance is being requested are also intimately connected with our security position in

Western Europe.

#### PROGRAM AMOUNTS

We are requesting a total of \$45 million in defense support for Spain; \$13.5 of this amount is programed for surplus agricultural commodities and the balance of \$31.5 million for badly needed industrial equipment and services. In the expenditure of the \$31.5 million balance, emphasis will be on the improvement of Spain's power and communication facilities which are deficient both from a strategic and economic point of view. There will also be an expenditure for agricultural equipment and technical exchange. Under the present arrangements, 70 percent of the counterpart accruing from defense support aid is used by the United States in support of the joint naval and air facilities which are being constructed in Spain. The Spanish defense support program is therefore both directly and indirectly in support of the base effort.

For Yugoslavia, a total of \$30 million is being asked. Yugoslavia's vulnerability, both strategic and economic, continues to constitute a serious threat to our security position in Europe. In the economic sphere Yugoslavia's most serious deficiency is a food shortage. Accordingly, \$20 million, or two-thirds of the defense support requested, will be used for agricultural commodities; the

balance is programed for industrial raw materials, including coal and roadbuilding equipment. It is expected that such assistance will materially aid Yugoslavia to continue to maintain its independence from the Soviet Bloc.

For joint control areas, we are asking a total of \$12.5 million. With the exception of a small amount for technical exchange in West Germany, Austria, and Berlin, the bulk of these funds are programed for support of West Berlin's economy and for activities designed to demonstrate to the people of West Berlin and, through them, to the people of East Germany, that the United States con-

tinues to maintain a real interest in their fate.

Finally, we are requesting \$2.5 million for technical exchange in Western Europe. This program has proved itself as one long-term answer to the long-term problem of European growth which was mentioned earlier. In the past, it has been conducted largely bilaterally, with the United States giving technical assistance and advice to individual European countries. The program has now been taken over in large measure by the European Productivity Agency of the OEEC, which is conducting it on a multilateral basis, with the United States supplying advice and counsel. As United States funds for this program decline, the Europeans themselves are substantially increasing their contributions to the EPA to insure its continuance. Since a major part of the funds requested are programed as a grant to the EPA, a necessary legislative change in section 415 of the mutual security legislation is also being requested.

The CHAIRMAN. Is there anything particular that you wish to tell us?

Mr. VAN DYKE. There are 1 or 2 comments I would like to make informally, Mr. Chairman, if I might.

The CHAIRMAN. Yes, sir.

Mr. Van Dyke. As the Senator from Louisiana has already pointed out, business is good in Europe and we are not asking for economic assistance for the European region on the same basis as assistance is being requested for other regions.

We are limiting our request to four very specific and we consider

special situations.

## ECONOMIC CONDITIONS IN EUROPE

Let me first comment generally on economic conditions in the Euro-

pean area, however.

Despite the fact that trade continues to increase and despite the fact that production and consumption continue to rise, there are certain long-term and certain short-term trends which give us cause for

concern

The Senator has pointed out, or has drawn our attention to the fact that reserves in the European area are increasing. It should be borne in mind, however, that these reserves today are not much above in dollar value, what they were in 1938, so that a much broader system of trade and a much larger population and a much increased industrial base are being supported on dollar reserves which are not much greater than those that served the European area in 1938.

#### GOLD AND DOLLAR RESERVES

Senator Humphrey. May I interrupt there? Are you speaking now strictly of gold reserves?

Mr. VAN DYKE. Gold and dollar.

Senator Humphrey. What about soft currency? What about British reserves and sterling?

Mr. VAN DYKE. I don't have the 1938 figures for the individual

countries with me, Senator.

Senator Humphrey. Isn't that significant, though? Is that not relative to the whole concept of reserves, the total aggregate of reserves, because the British, for example, trade in soft currencies and particularly in sterling in many areas of the world where dollars are not necessary?

Mr. VAN DYKE. Of course; yes, sir. The convertible currencies, however, have a much wider usefulness in international trade and

that is why we use them as sort of a benchmark.

Senator Humphrey. I do not want to take up your time on it but I often wonder if we are not overemphasizing this matter of dollar gold reserves.

There are only about two countries that really have any gold of any consequence, the United States and the Soviet Union; isn't that

about right?

Mr. VAN DYKE. Germany and France have about \$2 billion, the United Kingdom has about \$2 billion, Switzerland has about \$2 billion, but after that they do get rather small.

Senator Humphrey. It just fritters away.

Mr. Van Dyke. Yes, sir.

#### DOLLAR BALANCE

Senator Long. This has been used as an argument around here for years—that we had to give a lot of aid to those countries because they did not have the dollars.

Now an examination of these figures that you made available to me does not support that argument at all. If you compare 1952 at the time we started increasing the forces over there in those countries, most of them have had great increases in their dollar balances. [Deleted.]

Mr. Van Dyke. I would just like to make two comments on that. You are perfectly correct, of course, that their dollar reserves have been increasing. But, first, these dollars must serve a much bigger

volume of trade than they ever did before.

Senator Long. I would like for the figures that can be made available to be incorporated in connection with your statement there if you will, please.

# Real value of gold and dollar reserves, 14 European countries, 1938, 1953-55

	19	38		1958			1954			prices 1 159 587	
Country	Reserves, Dec. 31	Months imports	Reserves, Dec. 31 (million dollars)		Months imports	Reserves, Dec. 31 (million dollars)		Months imports			Months imports
	(million dollars)	covered by reserves	Current prices	Constant prices <sup>1</sup>	covered by reserves	Current prices	Constant prices 1	covered by reserves	Current prices	Constant prices 1	covered by reserves
Austria Belgium-Luxembourg Denmark France Germany Iceland Italy Netherlands Norway Portugal United Kingdom Spain Yugoslavia	2, 952 219 1 216 1, 057 99 86 3, 316	2.3 12.7 2.0 26.9 1.2 1.1 4.4 16.3 4.1 10.1 8.8 (2)	238 1,098 127 1,048 1,225 9 814 980 171 469 2,518 150	117 538 62 514 600 4 399 480 84 230 1, 234	5. 2 5. 4 1. 5 3. 0 3. 9 1. 6 4. 1 5. 0 2. 3 17. 1 3. 2 3. 0	329 1,039 102 1,358 1,998 100 927 1,045 559 2,762 2,762 188 23	164 517 61 676 994 5 461 520 74 278 1, 374 93	6.0 4.9 1.1 3.7 5.2 1.7 4.6 4.5 1.7 19.1 3.5 3.7	324 1, 198 91 2, 034 2, 374 10 1, 133 1, 065 124 602 2, 120 221 29	159 587 45 997 1, 164 5 555 522 61 295 1, 039 108	4. 4 5. 1 . 9 5. 2 4. 9 1. 5 5 5. 0 4. 0 1. 4 18 1 2. 3 4. 3
Total, 14 countires	* 8, 937	8 9. 5	8, 867	4,346	3.8	10, 488	5, 218	4.1	11, 325	5, 551	3.9

<sup>&</sup>lt;sup>1</sup> Adjusted by United States export prices, index 1936-38-100.

<sup>1</sup> Not available.

<sup>&</sup>lt;sup>3</sup> Excludes Spain.

Mr. VAN DYKE. Secondly, each government must choose between the use of these resources for all the various competing requirements for them

And just as the United States Government must decide what it uses its resources for, whether it gives them to foreign aid or some other purpose, so each government makes that decision, and we have only

a limited leverage by which that decision can be influenced.

These are both points that must be considered along with the point that you have made, which is, of course, a very valid one. I would like to point out further, Mr. Chairman, if I might, that we are somewhat concerned with the long-term rate of growth in the European area.

In 1900 the average American produced and consumed about as much as the average European. Today the average American produces and consumes at least twice as much as the average European.

Secondly, the best available statistics we have indicate that the rate of growth in the Soviet Union during the past 5 or 10 years has been about double the rate of growth in Western Europe, so that the relative rate of growth in Western Europe both vis-a-vis the United States and vis-a-vis the Soviet Union gives us some cause for concern.

#### HOW FUNDS ARE TO BE USED

I would like to move from that to the specific situations for which funds are being requested.

First, for Spain, we are asking \$45 million.

These dollars will be spent, if the Spanish Government concurs in our programing, largely for industrial and agricultural equipment with some surplus agricultural commodities.

The local currency counterpart of these dollars will be spent largely for the construction of United States bases in Spain under the existing

agreement.

The counterpart which accrues to the Spanish Government will finance projects which support our base complex in Spain.

#### PROGRAM FOR SPAIN

Senator Humphrey. Are we helping the Spanish with any economic aid other than this?

Mr. Van Dyke. No, sir.

Senator Humphrey. I mean to build their roads, for example?

Mr. Van Dyke. This is the aid program for Spain that I am talking about now.

Senator Humphrey. That is related to the bases; isn't it? Didn't

you say that?

Mr. Van Dyke. These funds—the counterpart of these dollars—are, under the present agreement with the Spanish Government, given partly to our United States Defense Department to help them build the bases, and go partly to the Spanish Government, which in turn uses them to construct projects which support our base program.

Senator Humphrey. What is the \$45 million being used for?
Mr. Van Dyke. The \$45 million is being used to buy United States commodities—agricultural equipment, industrial equipment, and surplus agricultural commodities.

Senator Humphrey. Like what?

Mr. Van Dyke. Wheat and cotton.

Senator HUMPHREY. Yes; I know what you mean in surplus com-

modities, but what kind of equipment?

Mr. Van Dyke. Power equipment, transmission equipment, road-building equipment, various industrial items of that sort, as well as some industrial raw materials.

Senator Green. May I ask a more fundamental question?

What is the interest of this country in Spain apart from a site for defense?

Mr. VAN DYKE. I think, Senator, that our interest in all of these programs is largely a matter of our own security.

[Deleted.]

Mr. VAN DYKE. Does that answer the question?

Senator Green. No.

Mr. Elbrick. Senator, may I try to add something to this?

The CHAIRMAN. Yes, sir.

Mr. Elbrick. From the strategic point of view Spain is important, and I think that the Defense Department representatives will bear me out on this. It is of great importance to the whole NATO complex. Spain is not a member of NATO, however.

Senator Green. You mean her geographical location?

Mr. Elbrick. That is of some importance.

Senator Green. That is what I asked; as a site for defense, that is all. But why are we interested in their economic development?

#### UNITED STATES BASES AFFECT SPANISH ECONOMY

Mr. Elbrick. Only to the extent, sir, I think that the building of

bases in Spain may have an effect on the local economy.

In other words, we are supporting by this economic aid our own efforts to build the bases and to keep the Spanish economy on an even basis or on an even keel; isn't that correct?

Mr. Van Dyke. That is correct.

Senator Green. You do not make clear the relation between the two. Is Spain a poor country or a rich country?

Our building the bases would be the same.

Mr. VAN DYKE. Perhaps I can illustrate with one item, for example. About \$4 million of this \$45 million which we are requesting will be used to procure transmission equipment which will be used to improve the electric distribution system within Spain.

This in turn improves the effectiveness of our own bases there, so that some of this money which we are requesting will directly support the United States military effort in Spain although it is not for military

items themselves.

Senator Humphrey. This is under the defense-support category then; is that correct?

Mr. VAN DYKE. That is correct.

The CHAIRMAN. Can you add anything, Mr. McGuire?

Mr. McGure. Mr. Chairman, those bases are extremely important to us, and also to our bases in North Africa. The two rather tie in. And I think, although I am not a competent witness on the economic problems of the country, it is desirable, if we are going to have bases in Spain, that we have the best economic level in that country that we can

help develop, and that we help maintain a level that is consistent with

the burden we put on their economy by having the bases there.

I am sure the Department of Defense would feel happier with Spain as a prosperous country than if it were a very poor impoverished country.

Senator Long. Is this support going to be a loan now, or is it a grant

to Spain?

#### FRENCH AND ENGLISH POSITION IN RESPECT TO SPAIN

Senator Green. Neither France nor England take the same position, do they?

Mr. McGuire. In respect to Spain?

Senator Green. Yes.

Mr. McGuire. I don't think they do.

Senator Green. For the reasons you gave, why does not it apply equally to them?

Mr. McGuire. I don't know whether France or England have any

bases in Spain. We have the bases there, sir.

Senator Green. Yes; but it is for protection for England, France,

and the United States that we have them.

Mr. McGuire. That is correct, sir, but I would think that our basic motive of putting the bases in Spain was the protection of the United States first.

That certainly was our major consideration.

Senator Green. How do you account for our having a different

interest there than France and England?

Mr. Elbrick. Senator, I think that falls in the political realm. Since the establishment of the Franco government in Spain, and since there are large Socialist Parties in both France and England that take a very dim view of the form of government that exists in Spain today, it has been impossible for the Government of France or the Government of the United Kingdom up to this time to make any overtures, let us say, toward Spain which would result in Spain's being admitted to the North Atlantic Treaty Organization or in Spain's being closely allied with either of those two countries.

This situation is, we think, changing. It changes very slowly.

[Deleted.]

There is an added sort of thorn in this situation in Gibraltar.

Spain claims Gibraltar, the United Kingdom occupies Gibraltar, but this can be also an artificial issue which can be brought up at any time by the Spanish Government, and is frequently brought up.

Nevertheless, the fact remains that our policy is to try, wherever we can, to improve the relations between Spain and our NATO allies, the ultimate objective being, if possible, to make Spain a part of the North Atlantic Alliance.

[Deleted.]

Senator Green. How much money have we spent on our defenses in Spain?

Mr. McGuire. I do not have that figure here, Senator, I can get it

for you.

Senator Green. Will you, please?

Mr. McGuire. Yes; I will, and put it in the record.

# (The following information was subsequently furnished:)

# Military construction program in Spain

Air Force: Appropriated dollars (allocated) Counterpart pesetas (expended)	\$141, 718, 000 7, 574, 000
Total	149, 292, 000
Navy: Appropriated dollars (allocated) Counterpart pesetas (expended)	77, 139, 000
Total	
Total (Navy and Air Force)	229, 376, 000

Senator GREEN. What are our obligations in that connection?

We have undertaken some obligations, haven't we, to Spain in connection with the granting of these locations?

Mr. McGurre. That is right, sir. [Deleted.]

Senator Long. If it is a policy that we are not supposed to know any of these things, I will be content not to know it. I recall when I was conducting hearings on some of these very bases as chairman of a subcommittee on armed services, I would ask some questions I wanted to know and this military witness would say, "I can't answer that in this room," so he would take me into the back room and whisper in my ear that they wanted to put a radio station somewhere.

Mr. McGuire. Senator, that is not my position in answering you. It is a little out of my field. I did not want to mislead you that you

were getting an answer from an authority.

Mr. Elbrick. I would like to try, Mr. Chairman, to add a little more to this discussion about the use of bases, if I may go off the record again for just a moment.

(Discussion off the record.)

The CHAIRMAN. Gentlemen, I do not think we can continue longer today. I thought that we might get to you, Admiral, today, but I don't think we can. Can you come back tomorrow?

Admiral Delany. Yes, sir.

Mr. McGuire. Mr. Chairman, could I beg your indulgence for a moment? I have a prepared statement on the military assistance program in Europe.

Could I see that it goes in the record?

And I would also like to request your permission to file a statement as to the effect of the billion-dollar cut that has been proposed in the House.

I think it would be helpful to the members of this committee if they

had our thinking on that.

The CHAIRMAN. We will be very glad to have you file your statements, Mr. McGuire.

(The statements are as follows:)

STATEMENT BY E. PERKINS MCGUIRE, DEPUTY ASSISTANT SECRETARY OF DEFENSE (INTERNATIONAL SECURITY AFFAIRS), FOR MUTUAL DEFENSE ASSISTANCE PROGRAMS

Mr. Chairman and members of the committee, I believe we all feel that the defense of Western Europe is vital to the security of the United States. The continuing Soviet military threat and the new attempts at economic penetra-

tion prohibit the relaxation of our defenses in the NATO areas. We believe that continued military assistance to our European allies is one of the effective means

of accomplishing this purpose.

The mutual security program for fiscal year 1957 includes \$760 million for military assistance to Europe less Greece and Turkey, which are usually discussed in connection with the Middle East. We are now planning to provide to our allies new and advanced weapons. The NATO area will receive a substantial part of these weapons as they become available. Within the free world such weapons, until now, have been a virtual monopoly of the United States. They are of paramount importance, however, in defending those vital areas of Western Europe which are recognized as an integral part of the defense of the United States.

The morale and determination of our NATO allies and their support of collective-security measures will be greatly increased by the realization that, in true partnership spirit, we are providing them with greater capacity to defend them-

selves by making available advanced means of defense.

The importance of maintaining the effectiveness of conventional European forces must not be neglected, inasmuch as these forces comprise now, and for some time to come will comprise, the backbone of NATO strength. The proposed 1957 program, aside from the new-weapons element, is needed to preserve the combat effectiveness of the equipment we have already contributed. States maintenance, replacement, and training programs are still, and will continue to be, an essential part of the NATO defensive effort. Continued military aid programs will be necessary to insure that conventional European forces are capable of carrying out their assigned missions. Taken together with the advanced-weapons program, what we are requesting will make possible significant steps toward maintaining and improving the quality of the military defense forces in Western Europe.

These forces which stand side-by-side with strong United States forces already in Europe form an essential part in the plans for the forward defense of the United States. Without the forces of our allies, we would in all prudence need

to increase measurably our own armed forces.

The fiscal year 1957 military assistance program for Spain carries forward the military part of the general program under which we obtained important base rights for the United States Navy and Air Force. It will fulfill the commitment entered into by the United States under the agreements of 1953, and continue our close association with Spanish military authorities.

The preservation of Yugoslav independence from the Soviet bloc is of importance to the free world. Yugoslavia lies across the southern flank of NATO, and is linked with Greece and Turkey through the Balkan Pact. Communist country, it has, in determined fashion, asserted its national independence from Soviet domination and control. Our military assistance program is designed to help Yugoslavia maintain the ability and the will to protect its present position of independence. The program here proposed would help to maintain the effectiveness of forces already supported in part by our prior

While the United States has participated actively and continuously in European military defense, we should not underestimate the continuing contribution which is made by recipient countries on their own behalf. The combined defense expenditures of the European NATO countries (excluding Greece and Turkey) have been maintained at an annual level of approximately \$11.5 billion compared with our proposed contribution this year of \$760 million. United States military assistance from 1950 through 1955, which includes the heavy post-Korean build-up, averaged only 15 percent of these defense expenditures. The military assistance requested for fiscal year 1957 totals less than 7 percent of the defense expenditures expected of European nations themselves. We are urging European nations to assume a progressively larger share of the burden of their defense costs at the earliest practicable date.

In summary, we believe there are sound reasons, in our mutual interest, for requesting adequate amounts of grant military assistance for our European NATO partners, for Spain and for Yugoslavia. With the ratification of the With the ratification of the North Atlantic Treaty, we in the United States accepted the defense of Western Europe as a collective and partnership responsibility. This concept makes sense, for the alternative then was-and still remains-a unilateral undertaking by the United States to protect an area which must remain free of Soviet control and in friendly hands if the remainder of the free world is to be preserved.

STATEMENT ON THE EFFECTS OF THE REDUCTION PROPOSED BY THE HOUSE FOREIGN
AFFAIRS COMMITTEE ON THE EXECUTIVE BRANCH REQUEST FOR \$3 BILLION
AUTHORIZATION FOR MILITARY ASSISTANCE IN FISCAL YEAR 1957

The bill (H. R. 11356) reported by the House Foreign Affairs Committee (1) reduces the authorization for military assistance requested by the executive branch by \$1 billion (from \$2.925 billion to \$1.925 billion), (2) provides that not less than \$48 million shall be used to provide assistance to Spain, and (3) limits military assistance to other European countries to \$402 million.

In considering the effect of this reduction of the proposed appropriation, first consideration must be given to certain charges that are in the nature of operating overhead or fixed commitments. These have first claim on any money appropriated and must be paid if there is to be any military assistance program at all. The fiscal year 1957 program contains the following items of this nature:

1. Packing, crating, handling, and transportation of materiel previously funded which is to be delivered in fiscal year 1957, \$134 million: This estimate was based on an expected delivery rate in fiscal year 1957 of \$2.5 billion. Recent actions taken in the Department of Defense to expedite deliveries of equipment previously funded will probably result in a delivery rate during fiscal year 1957 of \$2.7 to \$2.9 billion. It is therefore likely that the \$134 million figure is somewhat understated.

2. United States contributions to infrastructure and the support of international military headquarters, \$80 million: These are commitments of the United States on a cost-sharing basis as part of our NATO agreement, and the amounts

are relatively inflexible.

3. Administration, \$24.9 million: This estimate is approximately the same as the estimate for fiscal year 1956, and does not take into account Department of Defense plans for intensified and better directed supervision of the military assistance program. Reduced appropriations for fiscal year 1957 would not result in reduced need for administrative supervision of the programs to be delivered from previous appropriations.

4. Special programs, \$12.4 million: These are special programs of a classified

nature which can be explained in executive session.

5. Repair and rehabilitation of excess, \$3.9 million: This is money required for the repair and rehabilitation of materiel excess to the needs of the military departments which will be provided to the military assistance program without any charge except for the cost of repair.

The total of the amounts listed above is \$255 million. In addition to the above relatively fixed amounts, there are two segments of the program from which the return to the United States is so great in relation to amounts spent

on them that they should not be reduced. These are:

1. The training program, \$103 million: In order to insure the combat effectiveness of the forces which we have previously equipped, and to lay the groundwork for the effective use of advanced weapons to be supplied in future programs, this amount of training is absolutely essential in fiscal year 1957. The training program not only contributes to the technical proficiency of the users of complicated MDA supplied equipment, and thereby assures that it will not be destroyed or damaged by careless and improper use, but, more importantly, it is an opportunity for the United States to build good will, to expose influential citizens of friendly countries to our methods, and in general to make friends with our allies. The long-range effect of the training program may well outlast the useful life of the materiel being provided.

2. A special program, \$20 million: This is a classified program of a special nature which can be explained to the committee in executive session, and which

is believed to be of such importance that it should not be reduced.

After deducting the items listed above—the \$255 million for fixed charges and the \$123 million for training and the special program—there remains approximately \$2.5 billion of requested appropriations. It is this amount rather than the \$3 billion program which must bear the full impact of the \$1 billion cut imposed by the committee. This \$2.5 billion request consists of \$426 million for advanced weapons (after taking into account \$104 million of the total \$530 million advanced weapons program funded from fiscal year 1950–1956 appropriations), and \$2.1 billion for all other materiel requirements.

This amount must provide:

The United States share of the maintenance and replacements required to maintain the combat effectiveness of the forces which we have equipped;

A start on the advanced weapons program which will go almost entirely to NATO, and which General Gruenther has stated is of such importance to NATO; and

A part of consumables required for such important military forces as the Republic of Korea Army (facing a well-equipped and numerically superior force across a narrow demarcation zone), the Nationalist Chinese forces standing ready to repel aggression on Taiwan, and the Pakistan and Turkish Armies.

Obviously \$1.5 billion, which is all that would be left after applying the com-

mittee cut of \$1 billion, cannot provide for all of these requirements.

The effect of a reduction of \$1 billion was specifically considered in the early planning stage for the fiscal year 1957 program. The Joint Chiefs of Staff at that time found that a ceiling of \$2 billion for military assistance in fiscal year 1957 was unacceptable without a change in our security commitments and objectives. They stated that a program of only \$2 billion would not fulfill the requirements listed below which are considered vital to maintaining an acceptable military posture in the free world:

Augmentation of equipment for forces in being in the Baghdad Pact nations.
 Proper maintenance of worldwide forces in being to meet desirable combat

standards.

3. Initial increments of modernized and advanced air defense units for Europe and Japan.
4. Selected replacement of over-age ships and obsolete aircraft in order to

maintain combat effectiveness in existing forces.

5. Provision of adequate war reserves of ammunition and equipment in those areas most vulnerable to Communist aggression.

Completion of essential unit equipment and modernization requirements for existing forces.

Provision of sufficient training ammunition to prevent depletion of already inadequate war reserves, and to achieve acceptable standards of combat readiness.

The overall effects of the cut of \$1 billion in the program are set forth above. The specific limitation on aid to Europe imposes further restrictions and makes the action of the committee of even more concern to the Department of Defense. The effect of limiting the aid to be given to Europe (less Spain) in fiscal year 1957 to \$402 million has been carefully analyzed by the Department of Defense. Three alternate courses of action to stay within this limit have been considered. These are:

First, using the available funds, insofar as possible, for the provision of advanced weapons in order to get this important program underway. This would mean that there would be no provision for continuity of the program for attrition replacements, maintenance and spare parts. The forces could not be kept in a satisfactory state of readiness. Furthermore, it would probably be necessary to eliminate entirely the mutual weapons development and facilities assistance programs. To neglect entirely these two important programs will impede the progress which our NATO partners have made in developing an industrial mobilization base to support their armed forces. Such neglect would also impair research and development on promising lines of scientific exploration of new weapons and methods of defense which would strengthen the free world position in the face of rapidly developing Communist aggressive capabilities. This is not true economy. The alternatives are permanently weaker partners or greatly increased United States expenditures later. Even with such drastic reductions in the conventional program, the amount available for advanced weapons under the \$402 million ceiling imposed by the committee would be only \$302 million after providing for delivery charges and a minimum of essential training. This alternative is both politically and militarily unacceptable, both from the standpoint of foreign policy and of sound military judgment.

The second alternative considered was to defer to a future date the provision of any advanced weapons, and use the limited amount of funds left available by the committee to provide the minimum essential maintenance and replacements. This alternative is equally unacceptable. Such a program is fundamentally contrary to the concept upon which our military planners have based the adequate defense for Western Europe which is essential to our own security. European NATO forces would be unable to take their place alongside United States forces in Europe with the proper equipment to do their expected part in combat. It would deprive the United States of the very important psychological impact of the advanced weapons program which has been counted on to restore the confidence of NATO countries in their ability to defend themselves against

attack. The advanced weapons program adds very directly to the security of the continental United States by providing a vital link in the early warning air defense system which protects the United States as well as Western Europe.

This advantage would be lost.

Even after deleting all provisions for any advanced weapons, the amount left for maintenance, replacements, spare parts, training ammunition and all the requirements which were planned as the United States contribution to maintaining the combat effectiveness of the conventional forces would be but slightly more than half of the estimated requirements. Our NATO partners could only assume that we have abandoned the existing concepts and standards of military aid, and the resulting trend to neutralism or defeatism in NATO would be serious.

A third alternative considered by the Department of Defense was to distribute the limited funds made available between the advanced weapons and maintenance and replacement of the conventional weapons. the disadvantages of both of the other plans. It spre too thin to do any real good in either direction. This alternative has all It spreads the available money

In addition to the overall adverse effects of reducing the authorization by \$1 billion stated by the Joint Chiefs of Staff and listed above, the limitation on aid to Europe will be unacceptable for the following reasons:

1. Funds available would be insufficient for the minimum essentials of an

already austere European program.

2. The combat effectiveness of the European NATO forces, brought about in large part by United States contribution of about \$9 billion worth of materiel, would seriously decline.

3. United States leadership in European affairs would be weakened to such

an extent that neutrality would be encouraged.

4. The Federal Republic of Germany, seeing the fate of other United States allies in Europe, would have further excuse for delaying her military buildup. 5. The vital contribution of NATO to the security of the free world would be

jeopardized.

There are savings which can be found in this program and used to reduce the appropriation request for fiscal year 1957. Some of these have already been reported to the House Foreign Affairs Committee. As now estimated by the Department of Defense, these savings amount to about \$129 million, consisting of:
(1) Unobligated fiscal year 1956 funds not required to be reappropriated,

(2) Adjustments due to program refinements (changed prices and changed requirements, etc.), \$100 million.

#### CONCLUSION

1. The drastic cut of \$1 billion will require a basic reevaluation of the plans and policies on which the military assistance program is founded. Our security commitments and objectives would have to be changed. It is politically and militarily unacceptable.

2. The limitation on aid to Europe strikes at the very foundations of the NATO alliance and is fraught with the possibility of extremely grave damage to the

national security.

3. Adjustments and refinements made in the program since it was originally presented to the Congress have revealed approximately \$129 million savings which could be applied to reduce the fiscal year 1957 appropriation request without serious damage to the national interest.

#### HOUSE COMMITTEE CUT IN PROGRAM

Mr. Elbrick. Mr. Chairman, may I say a few words about that cut at this point—just a very brief remark about it.

The CHAIRMAN. Yes, sir; it will have to be very brief.

Mr. Elbrick. I am sure this committee is aware of the political effect that this cut would have among our allies if it goes through as it is proposed.

We have spent a great amount of time recently with our friends in NATO trying to work out a means of closer cooperation and coordination and if this cut goes through we sort of pull the props out from under this effort in NATO. It is, in our view at least, a contradictory way of proceeding.

We have up to this time—

Senator Long. How deep was that cut in the House on the European part?

Mr. Elbrick. On the European section it was \$600 million, as I

understand it.

Mr. McGuire. No; the cut is a billion dollars of the total military program with a limitation that only \$402 million may be spent in

Europe apart from Spain.

Mr. Elbrick. I just want to stress the importance that we attach to the program and to our refraining, if possible, from creating very adverse political repercussions in Europe, which I believe this cut would do if it is sustained.

The CHAIRMAN. Senator Long, were you here yesterday afternoon?

Senator Long. No, sir.

The CHAIRMAN. Secretary Wilson and Admiral Radford were here and they talked to us about this matter.

We hope to recess until 10:30 in the morning.

I hope as many of us as possible can be here because we want to hear from Mr. Murphy, Controller of the International Cooperation Administration, and Admiral Delany.

We particularly want to consider the farm surplus program as

well as the Battle Act and its application.

If there is any other gentleman present this morning who cannot be back tomorrow who has a prepared statement, it may be put into the record so as to complete the record as far as possible.

I believe if there are no statements that can be offered, we will

then recess until 10:30 tomorrow morning.

(Whereupon, at 12:35 p. m., the committee was adjourned, to reconvene at 10:30 a. m. Thursday, May 24, 1956.)

# **MUTUAL SECURITY ACT OF 1956**

# THURSDAY, MAY 24, 1956

UNITED STATES SENATE, COMMITTEE ON FOREIGN RELATIONS, Washington, D. C.

#### EXECUTIVE SESSION

The committee met, pursuant to recess, at 10:45 a.m., in the committee room, United States Capitol Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Fulbright, Sparkman, Mansfield,

Long, and Smith (New Jersey).

Also present: R. Ammi Cutter, International Cooperation Administration.

The CHAIRMAN. For the purpose of completing the record, which will be before the whole committee when we begin to mark up the bill, we can proceed.

We would ask you to go ahead, Admiral, if you please.

# STATEMENT OF LEWIS L. STRAUSS, CHAIRMAN, UNITED STATES ATOMIC ENERGY COMMISSION

Mr. Strauss. Thank you, Mr. Chairman.

I appreciate this opportunity of appearing before you on the foreign research reactor program of the Government, and I have a very brief statement which I should like to present.

The CHAIRMAN. You may do so.

# THE PRESIDENT'S ATOMS-FOR-PEACE PROGRAM

Mr. STRAUSS. Thank you.

In his address before the General Assembly of the United Nations in December 1953, President Eisenhower voiced the world's urgent need to avoid an atomic war and the reasons for sharing knowledge of the peaceful uses of atomic energy as a means toward that most desirable end. As a first attainment of this goal, he outlined his program of atoms-for-peace.

Legislative proposals were then submitted to the Congress to enable the United States to carry out these objectives. The resulting Atomic Energy Act of 1954 opened the way to industrial participation in our own country and to our cooperation with other free nations in the development and promotion of the peaceful applications of this great

source of energy.

Broadly speaking, the immediate objective of the atoms-for-peace program is to enable cooperating nations to have their own trained

scientists and engineers and to provide for the exchange of knowledge gained in programs of research and development in the areas of medicine, agriculture, industry, and pure unapplied science.

The United States may be expected to gain by receiving in return the results of research and development in friendly and cooperating

countries.

The program, therefore, includes the exchange of information, assistance in the training of scientists and engineers, and help in securing specialized equipment and essential components.

#### ATOMIC ENERGY AGREEMENTS

The United States has also agreed to lease special nuclear materials to those nations which do not produce them. The program is being carried out primarily through bilateral agreements which are authorized under the 1954 act.

At the present time such agreements are in force with 28 nations. Two agreements are now before the Joint Committee on Atomic Energy in accordance with statutory procedures, and we are in the

process of negotiating 18 others.

Of the agreements now in force, 3 are power-reactor agreements; and of the agreements now being negotiated, 8 are power-reactor agree-

ments. The remainder are research agreements.

In addition, steps have been taken to establish an International Atomic Energy Agency to promote the development of these peaceful applications—all as originally proposed in December of 1953 by the President.

The bill which I understand is before you for consideration would authorize appropriations for three areas of financial assistance to friendly nations in the development of their nonmilitary atomic programs. Representatives of the International Cooperation Administration, I am informed, will discuss the Asian Nuclear Center, which is being financed from the President's Special Fund for Asian Economic Development; and they will also discuss the training of nuclear scientists, which is provided for, mostly, from technical assistance funds.

#### FOREIGN RESEARCH REACTOR PROJECTS

I address my remarks specifically to the third item—the "Foreign

research reactor projects."

The President on June 11, 1955, in an address at Pennsylvania State University, expanded somewhat on his statement before the United Nations General Assembly. He stated in Pennsylvania that the United States was prepared further to promote the nonmilitary applications of atomic energy, and would assist other nations by providing half the cost of a reactor to those nations or groups of those nations which could effectively use such a reactor for the acquisition of skills and understandings essential to peaceful atomic progress.

He also stated that the United States would furnish the necessary

nuclear fuel for such a reactor.

At the Geneva Atomic Energy Conference, successfully held last summer, and from discussions with representatives of other nations, it was evident that one of the most important steps in initiating a program of peaceful application would be to aid other nations in

obtaining the basic tools.

A research reactor is perhaps the most fundamental tool required. Also, within the provisions of the Atomic Energy Act of 1954, the United States can make a major contribution to the promotion of peaceful application of atomic energy by aiding friendly nations to construct such research reactors.

Before the President made this proposal, I consulted with the Joint Committee on Atomic Energy, which includes in its membership some members of this committee, and this was also done before the Commission made the finding that the project for assisting other nations to obtain research reactors was authorized by the Atomic Energy Act The decision was subsequently made to budget for this item as "mutual security assistance."

Under present procedures, eligible countries may submit proposals for research reactor projects and request financial assistance. projects are reviewed as to type of reactor, the qualifications of the organization selected to operate the reactor, the program of research to be conducted in the country, and the ability of the country to

finance the construction and operation of the reactor.

If the project is approved, the United States will agree to contribute up to half the cost of the reactor project, but in no case in excess of \$350,000. Experience indicates that such projects, which include the reactor, necessary buildings and utilities, and initial training, may in most instances cost about \$700,000.

It is to be assumed, therefore, that the United States contribution

in practically all cases will be \$350,000.

#### PROPOSALS QUALIFYING FOR FINANCIAL ASSISTANCE

Among the bilateral agreements which have been or are being negotiated with the 44 countries, 41 are expected to include research reactor programs. It is now expected that approximately 37 of these countries will submit proposals which will qualify for financial assistance under the President's offer.

For purposes of budgeting, we anticipate that 8 projects will be approved prior to June 30, 1956; that 17 will be approved during the fiscal year 1957; and that the remaining 12 will qualify in sub-

sequent years.

Therefore, in order to carry out the program, up to \$2.8 million is being made available from the President's special fund in fiscal year 1956 and authorization is now requested for \$5,950,000 in fiscal year The latter amount would provide for 17 contributions of \$350,000 each.

In view of the important contribution these reactors will make in providing assistance to friendly nations in many peaceful uses of atomic energy and in the future development of science from which the United States also stands to benefit, we respectfully recommend your favorable consideration of the request. [Deleted.]

# MADE IN UNITED STATES OF AMERICA

I find I neglected to mention one small item which, in order to keep my promise to my colleagues, I should attempt to get into the record. The CHAIRMAN. Yes, sir.

Mr. Strauss. My attention has been called to the fact that the Mutual Security authorization bill for 1957, as reported out by the House Foreign Affairs Committee, contains a proviso that equipment furnished under section 11, which deals with these research reactor projects, shall, as may be appropriated, be die stamped as a product of the United States.

Senator Smith and I were once engaged in a big relief operation in Europe, and always took care to see that nobody got any food unless the

bag had marked on it, "This came from the United States," and I completely approve of the general objective of this subsection.

But I am concerned lest a strict interpretation might prevent or impede our giving assistance as planned, in some instances, for the purchase of material and associated equipment and instruments manufactured in the country in which the reactor is to be operated.

There surely would have to be an awkward and burdensome pro-

cedure to insure compliance with this subsection.

For example, if we were to say to the Swiss, "If you make an instrument to put on this reactor, you have got to die stamp that as having been a United States benefaction."

Therefore, I suggest the following language be substituted for the final sentence in subsection (d) of section 11, and this is the suggested

"An appropriate plaque indicating the United States participation in each such research reactor project shall be conspicuously placed

The CHAIRMAN. Thank you very much, Admiral.

Mr. Strauss. Thank you very much. The Chairman. We will reconvene at 2:30.

Mr. Cutter. Mr. Chairman, may I just submit for the record a statement on the training program which ICA conducts in connection with this?

The CHAIRMAN. Yes, sir; you may submit it for the record. (The statement referred to is as follows:)

# TRAINING ACTIVITIES UNDER PEACEFUL USES OF ATOMIC ENERGY PROGRAM

Training of scientists and technicians from friendly countries in the new knowledge and techniques of atomic energy has been a major element in the Peaceful Uses program since the initial presentation of this program by the President to the United Nations General Assembly in December 1953. A good deal of such training has already been provided. Thus, for example, 116 foreign technicians have so far been trained at the School of Nuclear Science and Engineering at the Argonne National Laboratory. Some 38 of these training programs have been supported in whole or part with ICA technical cooperation The balance have been financed by the foreign governments concerned funds. from their own funds.

A substantial increase in such training will be required as the program for placing research reactors in friendly countries proceeds. Each such reactor requires at least 3 or 4 people fully trained in its theory and operation. In addition, scientists in various fields such as agriculture, medicine, and industry must be trained in methods of utilizing this research tool for the development

of improved methods and products in their particular fields.

Funds in the amount of approximately \$0.8 million are therefore being requested in fiscal year 1957 under separate country programs (technical cooperation in the underdeveloped areas and technical exchange in Europe). These will include ICA financing of participation in such training courses as the Argonne School of Nuclear Science and Engineering. Additional courses are tentatively scheduled to begin in September 1956. The training courses in the uses of radioisotopes at the Oak Ridge Institute of Nuclear Studies (ORINS) will

continue. In addition to a special course devoted entirely to foreign students, provisions will be made for attendance of several foreign students in each of the regular courses. Supplementing the formal training at ORINS and Argonne, individualized study programs will continue to be arranged for individuals who have requested training in the various fields of atomic energy. Such programs will be tailored to meet the specific training needs of each individual.

(Whereupon, at 12:25 p. m., the committee recessed, to reconvene at 2:30 p. m., of the same day.)

#### AFTERNOON SESSION

The CHAIRMAN. Gentlemen, we will proceed. Admiral DeLany is here to discuss the Battle Act.

Do you wish to put your prepared statement in the record?

Admiral DeLany. If I may, please.

The CHAIRMAN. If you will put it in the record, and give us the highlights of your report and a general statement, we would appreciate it.

Admiral DeLany. Yes, sir.

# STATEMENT OF VICE ADM. WALTER S. DeLANY, UNITED STATES NAVY (RETIRED), DEPUTY DIRECTOR FOR MUTUAL DEFENSE ASSISTANCE CONTROL

Admiral Delany. My general statement, sir, includes a summary of the information that has been supplied to the committee since August 1954, as relates to the provisions of the Battle Act list. Also, a summary of all the changes that have been made to date, a summary of all the Presidential determinations which have been previously reported to this committee.

It also includes some facts and figures on what we estimate to be the overall world trade for 1955 as compared with 1954, to show that there has been an increase of exports and imports between the free world

and the bloc.

It points out that our preliminary figures for 1955 would show that the bloc imports from the free world were up about 10 percent and their exports about 30 percent.

It points to the fact that the intrabloc trade remains about the same

as before, in 1955 as compared with 1954.

We show that 80 percent of the Sino-Soviet bloc trade is intrabloc, and only 20 percent with the free world; and it also points out that we believe that the bloc has completed about 30 percent more trade agreements, in numbers, with the free world.

There is a chart presented which shows the composition of trade, the change in pattern of the trade in certain categories between the free

world and the bloc.

It points out that the pattern has been changed to the extent where in foods, for instance, the increased imports by the bloc in 1954 over 1952, and the decreased exports from the bloc, have occurred; and within that group, grain exports, for example, alone have gone down from 246 million to 69 million between 1952 and 1954.

We attempt to analyze the different commodities that are involved in the entire trade between the free world and the bloc; and then, finally, point to the fact that in Paris, within the international committee for the control of trade with the bloc, the year 1955 saw what the United States would interpret as a growing tendency on the part of most of the participating countries against any further extension of controls.

And it points out the fact that in spite of that, we were able to add

certain new items to the list.

And finally, it points to the last two Battle Act reports which have been submitted since the last appearance before this committee.

I think that generally summarizes the full report which I have sub-

mitted.
(The statement referred to is as follows:)

#### STATEMENT ON EAST-WEST TRADE

I am appearing today as the Deputy Director for MDAC. This committee receives on a classified basis copies of the effective Battle Act lists. The last complete list was submitted under the date of August 1955 and shows that as

of that time there were 315 items on the Battle Act list.

Between the publication of the revised Battle Act list in August 1954, and our subsequent yearly publication of the lists in August 1955, certain further amendments were made to the control lists. During that period the definitional coverage of some 46 items under titles I and II of the Battle Act list was revised; another 14 items were added to or upgraded in the list while 2 items were removed because their strategic control was no longer warranted. Since August 1955 the definitions of 5 additional items were revised and 2 new items were added. All these amendments were either forwarded to this committee at the time they were accepted within the Economic Defense Advisory Committee structure or were incorporated into the revised list published in August 1955 which was also forwarded to this committee. I should like to note that these changes resulted from a thorough analysis of the military, technical, and other intelligence materials available to us from both governmental and nongovernmental sources, and were made after obtaining the points of view at the policy level of the Departments of State, Defense, Commerce, and Treasury as required by the act.

CONTINUATION OF AID TO FRANCE, ITALY, GERMANY, AND THE UNITED KINGDOM

Concerning the shipment of Battle Act embargo items which have actually taken place under unusual circumstances, I should like to note that they were of a relatively small value. On June 28, 1055, the President determined that an exception should be granted and aid be continued to France, Italy, the Federal Republic of Germany, and the United Kingdom. This Presidential determination was required under section 103 (b) of the Mutual Defense Assistance Control Act of 1051 because of some \$603,000 worth of title I, category B, items shipped by those countries to the Soviet bloc. Similarly in January 1056 the President granted an exception and determined that aid be continued to Denmark, the United Kingdom, and Italy. This determination was made necessary by the shipment of \$283,000 worth of title I, category B, items by those countries to the Soviet bloc. Notification of these Presidential determinations was given at the time they were made to the six committees of Congress mentioned in the Battle Act. None of the shipments involved in either of these determinations included arms, ammunition, implements of war, or atomic-energy material. With the exception of certain bearings shipped by Italy to the bloc as a result of an administrative error, all the shipments reported in the letter of January 1066 were prior commitments—that is, shipments resulting from commitments made prior to the effective date of the Battle Act embargo provisions or prior to the date of revision of the lists. With the exception of a small quantity of items sent by the United Kingdom to Communist China to service certain constrategic equipment previously shipped to that country by the United Kingdom, all of the shipments reported in the letter of June 1055 were prior commitments. No other shipments in either of these two determinations went to Communist China.

#### TRADE WITH SOVIET BLOC

You know that the United States does not permit the shipment of commodities to Communist China, and that most of the other important free world trading nations have not gone as far as we have in this respect. However, they do maintain much more extensive controls on shipments to that destination than on shipments to the European Soviet bloc. All the items on the old and new control lists applying to the European Soviet bloc-embargo, quantitative control, and surveillance—plus an additional list of items which do not appear on any of the various lists applying to the European Soviet bloc are embargoed by the participating countries to Communist China.

From the available data for 1955, we believe the trade in 1955, that is, the dollar value of free world trade with the Sino-Soviet bloc, will exceed 1954 nainly due to increased imports from the bloc. The dollar value of that year (1954) totaled \$3.0 billion—that is \$1.76 billion in exports to, and \$1.83 billion imports from, the bloc. It appears, too, that 1955 dollar figures will exceed the highest previous postwar year, 1948, when the total trade was about \$3.98 billion. That would mean the 1955 trade, as we see it now, will have a dollar value of about \$4.8 billion. One billion nine hundred and forty million would be in free world exports to the bloc and \$2.83 billion in free world imports from the bloc. Our estimated values for this trade with the bloc are as follows:

#### [In billions of dollars]

		U. S. S. R.	Satollites	China
Free world exports to: 1935. 1934 Free world imports from: 1935. 1934.	1. 94	0. 54	1, 10	0. 30
	1. 76	. 57	. 90	. 29
	2. 33	. 62	1, 22	1. 49
	1. 83	. 50	. 95	1. 38

<sup>1</sup> Includes 0.01 billion each in 1954 and 1955 for Outer Mongolia.

This would show the 1955 free-world trade with the entire bloc to be about 19 percent higher than the 1954 trade. I should like to point out, however, that this does not represent any relative increase in east-west trade. The facts show that although the dollar value of free-world trade with the bloc rose in 1955, the dollar value of world trade in general also rose, hence the bloc share of world trade remained at about the same percentage as last year (2.3 percent in 1954 and 2.5 percent in 1955). The major reasons for the lack of a substantial increase in free-world trade with the bloc are attributable to the bloc itself. These are brought out in our seventh report to Congress entitled "Soviet Deterrents to Increased Foreign Trade." As related to the countries in Europe which we call the COCOM countries, i. e., the ones who participate voluntarily with us in international trade controls, and who are the highly industrialized countries, our figures show that their percentage of exports to the bloc in 1955 was 3.3 percent, only slightly larger than 1954, when it was 2.8 percent of their overall export dollar

Our preliminary figures for 1955 show that bloc imports from the free world were up by about 10 percent over 1954, and their exports up about 30 percent. This would give them a more favorable balance than in 1954. The U. S. S. R. itself will show only about a 7-percent increase in the dollar value of its trade with the free world compared with the 19 percent for the bloc as a whole.

Intrabloc trade remains about the same as before, i. e., 80 percent of Sino-Soviet bloc trade is intrabloc—20 percent with the free world. China conducts 80 percent of her foreign trade within the bloc also.

We believe that in 1955 the bloc will have completed about 80 percent more trade agreements in numbers with free-world nations in 1955 over 1954.

#### COMMODITY BREAKDOWN

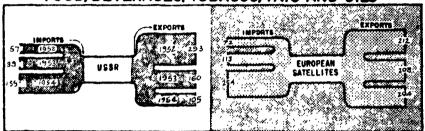
Now on commodity breakdown of that trade-I think the most illustrative presentation would come from this chart which comparatively shows U. S. S. R. and European satellite import and export trade in key commodity categories with the free world for 1952, 1953, and 1954.

# TRADE BETWEEN THE FREE WORLD AND THE EUROPEAN SOVIET BLOC

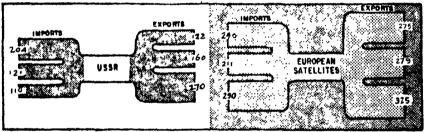
[Major Commodity Groups-Millions of United States Dollars]

Comparison: By years; between imports and exports; between the U. S. S. R. and the European satellites; between commodity groups.

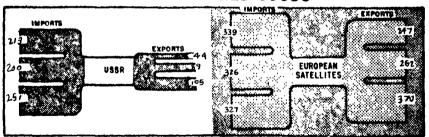
FOOD, BEVERAGES, TOBACCO, FATS AND OILS



# RAW MATERIALS AND FUELS



# MANUFACTURED GOODS



Small value of unclassifiable commodities not included in above groups.

European Satellites: Albania, Bulgaria, Ozechoslovakia, Soviet Occupied Zone of Germany, Hungary, Poland, Romania

Source: Dept. of Commerce, figures unadjusted for price change.

Please note in group one (food, etc.), the change in imports and exports. Note the increased imports by the bloc in 1954 over 1952 and the decreased exports from the bloc. Within that group grain exports alone have gone down from \$246 million in 1952 to \$69 million in 1954.

Then in the second group, note the decrease in imports by the bloc and the increased exports from the bloc. A breakdown would show, from the U. S. S. R., exports of—

Wood went from \$34 million in 1952 to \$75 million in 1954.

Cotton went from \$2 million in 1952 to \$44 million in 1954.

Petroleum went from \$10 million in 1952 to \$56 million in 1954.

These are figures on the U. S. S. R. For the satellites, for example, petroleum goes from \$16 million in 1952 to \$60 million in 1954, and wood from \$35 million to \$73 million.

Now look at the third group—and note there is no really significant dollar-value increase in imports by the U. S. S. R.—from \$213 to \$261 million—but the exports increase from \$44 million to \$106 million between 1952 and 1954. The satellites imports are almost static, but their exports go from \$247 million to \$370 million between 1952 and 1954. As far as we can predict for 1955, these same general patterns will prevail.

Now, of course, we are interested in trying to analyze, if we can, the effects of the reduction of items on the list in August 1954. We are concerned with the COCOM countries primarily because they represent, as I said, the industrialized nations. I think the figures below are interesting from that point of view.

Exports from COCOM countries to the European Soviet bloc of product categories affected by the August 1954 strategic list revision

	First half	Second half	First half
	of 1954	of 1954	of 1955 1
Machinery and equipment  Metalworking machinery. Chemical and petroleum equipment. Electric- and power-generating equipment. General industrial equipment. Transportation equipment. Electronic and precision equipment. Metals, minerals, and their manufactures. Other.	21 8	21 3	19.6
	2 4	1. 5	.5
	1.9	4. 7	5.3
	15 0	11. 3	7.6
	2 5	3. 8	6.2
	11.7	16 9	10.1
	2.1	2. 2	2.1
	6 8	25. 4	27.6
	5 8	7 0	6.6
Total	48. 5	73. 6	66. 0

[In millions of United States dollars]

You will note that in the first half of 1954, i. e., the period before revision that the dollar value of the exports by COCOM countries under this heading totaled \$48.5 million. Now in the second half of 1954—after revision—they totaled \$73.6 million. But please note that of this \$25 million increase, \$18.6 million was in metals and minerals and their manufacture, and \$5.2 million in transportation equipment, i. e., \$24 million of the \$25 million is accounted for by these 2 items. As you know, bare copper wire was removed from embargo in 1954 and put under surveillance. In spite of the United States efforts then and many times since, we could not get agreement to hold this part of copper under embargo—the increase in the metal category is mostly bare copper wire. In the transportation field, the increase during the second half of 1954 was due to the purchase by the bloc of types of ships which are under quantitative control rather than embargo. In the export of electric- and power-generating equipment there was a decrease of \$3.7 million in the second half of 1954.

In the first half of 1955, the total exports of these same items were \$66 mil-

lion—a decrease of \$7.6 million.

The export of certain categories of items continues to show an increase; general industrial equipment by \$2.4 million, and metals, minerals, etc., \$2.2 million. The export of transportation equipment, on the other hand, is down by \$6.8 million and electrical and power-generating equipment is down by another \$3.7 million. Almost all the other categories showed a decline.

I should like to note that the categories in this table include, but are not limited to, items affected by the August 1954 revision of the control lists. These figures are for the exports of all items in these categories, whether under con-

<sup>1</sup> Omits 2d quarter for Belgium-Luxembourg.

trol or not, and not for the exports of the deleted or revised items only. We have made a deliberate effort to secure information on trade specifically in the decontrolled commodities. On the basis of the information made available to us, which covers COCOM country trade in the decontrolled items up through the first half of 1955, there appears to be no substantial basis definitively to attribute the increase in exports to the reduction in the number of items on the control lists or to say that the increase consisted to any determinable extent to trade-in items removed from the lists—with the exception of the copper-wire shipments.

Now, of course, although the trade of these COCOM countries represents the greatest dollar value and volume of free world trade with the bloc—other free world countries trade, too. I thought rather than to try to give you concrete figures I might illustrate the increasing or decreasing trends between 1954 and 1955 by using percentage figures. I picked the countries listed here because they are the biggest traders.

Comparison by percentages of trade with Soviet bloc and trade with free world

	Exp	orts	Imp	orts
	1954	1955	1954	1955
Canada	0. 2 9 6	0.3	0. 1 9. 6	0. 2 9. 6
AustriaBelgium-Luxembourg (11)	2.9	2.4	2.0	1.9
Denmark	6. 5	3. 4	3.8	3.7
France	1.9	2.8	1.8	2.0
Germany (11)	3. 9	5. 5	4 8	5.1
[celand	24. 9 † 3. 8	27. 8 3. 3	18.3 2.7	22. 2 2. 6
Italy (11) Netherlands (11)	3. 8 3. 6	2.3	2. 1	2. 5
Norway.	7.7	5.9	4.3	3.8
Portugal (11)	2 4	2.6	. 3	.3
Sweden (10)	4. 2	3.6	4.1	4.1
Switzerland	4.8	4.8	3 8 9. 4	4.2 19.9
Turkey (9) (world trade—50 M) United Kingdom	16 5 1. 5	25. 6 1. 9	9. 4 2. 4	3.3
Finland	27. 9	25.8	28. 7	27.0
Yugoslavia (10)	2.6	11 8	1. 2	5. 3
Egypt	14. 1	26 7	5. 9	6.8
Burma	. 3	7.8	1.5	16.9 5.6
Ceylon	12 3 16 2	6.8 7.2	11. 3 20. 1	24. 2
Hong Kong	1.6	2.1	.9	1.4
Japan (world trade up 400 M)	1.5	2 0	2.0	3. 6
Argentina	7.8	6.8	5. 0	8.4
Brazil (10)	1. 5	3.3	1. 1	2.7
Uruguay.	9. 5		. 9	

#### PRESSURES FOR TRADE WITH THE SOVIET BLOC

In Paris, within the international committee for the control of trade with the bloc, the year 1955 saw what the United States would interpret as a growing tendency on the part of most PC's against any further extension of the controls. Pressures for trade with the bloc are increasing, competition among the member countries is building up, and there are many indications that the idea of trade controls is undergoing some serious reexamination in certain countries. During the year, however, new items were added to controls. We were able, through long, hard efforts, to get some copper cables and machines for their manufacture under embargo. In spite of our efforts, however, as I have said, we have not been able to get bare copper wire under higher control. We are continuing that effort.

The situation regarding the effort to get a better control over construction of smaller merchant ships, fishing vessels, etc., has not changed. The pressure, however, for Soviet orders had for a time decreased (the European yards are full of free world orders). Within the last few weeks this pressure has again been noted and we are once more confronted with a very difficult negotiating problem. We attribute it primarily to the efforts the bloc is making to destroy the controls on the faster merchant shipping.

Finally, as you are aware, I am sure, our sixth and seventh reports to Congress on the Mutual Defense Assistance Control Act of 1951 have been published since our last presentation. The sixth report issued on June 30, 1955, dealt with Soviet

bloc economic activities in the free world and went into the details of what Moscow and its satellites were doing in the economic sphere to extend their penetration. The seventh report, released on February 13 of this year, dealt with Soviet deterrents to increased foreign trade. This report was devoted to pointing out that the Soviet bloc, through its own activities, its policies, and its lack of exports, is primarily responsible for the low level of East-West trade. Both these reports have been transmitted to this committee.

#### ADMINISTRATIVE EXPENSE OF CONTROL

Admiral DeLany. The second report covers the administrative expense of control, in which it is pointed out that the authorization and appropriations for the control act expenses have become relatively stabilized at a level of about \$1.2 million, and that that \$1.2 million is almost identical with what we had last year and the year before.

It shows that the division of that \$1.2 million would be, if we received the appropriations, about \$400,000 would come to my own office, and the ICA, and to our part of our organization in Paris; about \$600,000 would go to the State Department to pay for the contribution that they make for this cooperative effort; and about \$200,000 would go to the Department of Commerce for their contribution to this cooperative effort. That distribution is practically identical with what it has been for the last 2 years that we have administered this program within that figure.

The CHAIRMAN. How many people are engaged on the administra-

tive side of that, Admiral?

Admiral DELANY. I can give you that, sir. Within my own shop, and ICA itself, sir, there are 35 permanent positions. There are seven permanent positions in the strategic trade control office of the United States regional organization—USRO—in Paris. That is within the MDAC itself.

Within the State Department, there are 31 positions domestically; 9 in the Office of the Assistant Secretary for Economic Affairs, 1 in the Office of European Affairs, and 21 in the Office of Intelligence

Overseas, within the State Department, there are 6 State Department positions within USRO, there are 19 in European posts, there

are 5 in Far Eastern posts.

And, within the Department of Commerce, we have 41 positions; 25 within the Office of Economic Affairs, 14 in the Office of Export Supply, and 2 in the Office of Intelligence Services.

The CHAIRMAN. And you say the administrative costs have leveled

off at about \$1.2 million?

Admiral DeLany. Yes, sir. In 1955, we had \$1.075 million; in 1956, we had \$1.175 million; and, for 1957, we are asking for \$1.175 million, which is what we had last year, and is comparable to the past 2 years.

# TRADE WITH RED CHINA

The CHAIRMAN. Can you tell us something about the actual trade with Russia and with Red China? Is it increasing or decreasing? Admiral DeLany. Yes, sir. My summary would show that, for the year 1955, free-world exports to the bloc were about \$1.9 billion.

(Discussion off the record.)

#### EFFECT OF THE BATTLE ACT IN CONTROLLING TRADE

Senator Green. The Battle Act aims at keeping strategic goods from the Soviet bloc, and the sanction in the law is the cutting off of assistance from a country which does not cooperate; is that right?

Admiral DeLany. Yes, sir.

Senator Green. In Europe, where your aid has dropped sharply, and where nonmilitary aid has been nearly eliminated, is the Battle Act of much help in enforcing cooperation in East-West trade controls? Admiral DeLany. Well, sir, the Battle Act was passed by Con-

gress in 1951. The list of items that would be controlled under the Battle Act was promulgated in 1952.

All aid-recipient countries of the free world were given copies of the act and were given copies of the list. I think that those countries appreciate the fact that the Battle Act is a law of Congress, it is a law of the United States. It was enacted to provide for the security interests of the United States and the free world, and I think that the aid-recipient countries recognize it as a law of the United States, and accept the provisions of it in that spirit.

You mention the fact that, I believe part of the question was, there

has been a reduction in economic assistance.

Senator Green. Yes.

Admiral DeLany. I think consideration has been given to that fact, because in 1953 when the economic defense policy of the United States was reviewed and revised, among the things that were taken into consideration in the revision were, first, the fact that it was accepted that the then existing controls did impose a very serious economic, political and financial problem for our allies, and I think it was also recognized and accepted that there would be a diminution,

a lessening, of economic aid toward the recipient countries.

Within the provisions of that policy we sat down with our other countries that participate in this international control, and made an item-by-item review of the items then under control. And as a result of long months of negotiation, we did accept a new and revised list, and we did obtain better enforcement of that list. that concept, and the fact that the principal industrial nations of the world including the United States, accepted that list, with the understanding that the Battle Act was applicable, I think that there is that complete understanding on the part of the aid-recipient countries, and that the Battle Act is, therefore, an effective implement of control.

Senator Green. Well, I should think it would necessarily be less

Admiral DeLany. I think that may be true, to a certain degree, sir. but I think that this control is in the interest of the security of the free world, within the concept of the Battle Act; and I don't believe that the willingness of a country to abide by the provisions of the Battle Act is necessarily dependent on the amount of aid that the country gets, nor do I believe that the intent of the Battle Act is to be construed to be a hoop that you hold up before your aid-recipient countries and say, "Jump through it, or else."

#### INCREASE IN EAST-WEST TRADE

Senator Green. But the trade has increased, has it not?

Admiral DeLany. It has increased throughout the world, yes, not only in the bloc but throughout the free world. But the Battle Act relates only to strategic items, sir.

Senator Green. Has there been any change in the list of strategic

items?

Admiral DeLany. There was this revision of the list of items that are under control which was made in 1954.

Senator Green. And that had some effect upon the application of

the Battle Act, did it not?

Admiral DeLany. No, sir, because when the United States agreed to participate in and when the United States agreed to subscribe to the revision of the list, and the Battle Act was then generally accepted on the same basis as the international list, you had no confusion, you had no conflict, because we were controlling the strategic items that we wanted to control.

Senator GREEN. That is right. But there has been less control; more

trade outside of the Battle Act exists than before, is that true?

Admiral DeLany. Yes, sir; that is true. We would consider that trade in nonstrategic goods.

Senator Green. I wondered whether the Battle Act was still effective.

Admiral DeLany. Yes, sir.

Senator GREEN. To a considerable extent?

Admiral DeLany. Yes, sir.

Senator Green. But it is not as effective as it was before?

Admiral DeLany. The list is not as great as it was before.

Senator Green. Then it would not be applied as widely as before.

#### CHANGE IN LIST OF STRATEGIC ITEMS

Admiral DeLany. It would not be applied over as many items, Senator. It would be applied over the items which the United States and the free world consider to be strategic.

Senator Green. I understand. But as to the total, what percentage would you say has been taken out of the Battle Act by this agreement?

Admiral DeLany. Roughly 25 percent, sir.

Senator Green. 75 percent is left, then.

Admiral DeLany. Yes, sir.

Senator Green. So it is well worth while to keep it.

Admiral DeLany. Yes, sir.

#### CARRYING OUT PROVISIONS OF BATTLE ACT

Senator GREEN. Has the President ever cut off aid under the Battle Act? And, if so, to what country has he applied the cutoff directly?

Admiral DeLany. I think my answer to that would be that, generally speaking, there has been such good compliance with the act, that it has not been necessary for the President to determine that a country should stop——

Senator Green. To what extent has the Battle Act been violated? Admiral Delany. The Battle Act actually has not been violated.

sir. When the Battle Act lists were promulgated, it was an accepted fact that certain aid-recipient countries had obligations within trade agreements for the trade on items that would appear on the Battle Act list, and therefore we accepted certain things under a term known

as "prior commitments."

And, as has been reported to this committee, the total shipments of embargoed items since the publication of the list totals about \$17 million, but of that dollar value, at least 75 percent of the shipments made have been made under that provision of the "prior commitment" understanding.

Senator Green. For what countries was that done?

Admiral DeLany. The United Kingdom; Denmark, in the case of the two tankers, I think you will recall; France; Italy; Norway.

Those are the names of the countries I recall offhand, sir, that have

been reported in an unclassified status.

Senator Green. You say that the President directed continuation of aid to those countries despite violation of the Battle Act?

Admiral DeLany. No, sir.

Senator Green. How would you put it? It was the President's

direction, was it not?

Admiral DeLany. When a country makes a shipment of an item that appears on title I, category B, of the Battle Act, it reports that shipment; and then, within the executive agencies of the Government, those reports are analyzed, and finally a presentation is made to the President recommending that he determine that the country continue its eligibility for the receipt of aid in order not to affect the national security of the United States, and he makes that determination.

Senator Green. That is another way of expressing it. I call that

a violation but you say there were no violations.

Admiral DeLany. Because the act provides for that determination

by the President, sir.

Senator Green. What word do you prefer, violations of the provisions of the act? The President was given power—

Admiral DeLany. That is right, under one category.

On the other hand, if a country ships an item under category A, which is arms, ammunition, atomic energy material, there is no prerogative—aid must be summarily stopped.

#### EFFECTIVENESS OF EAST-WEST TRADE CONTROLS

Senator Green. When Mr. Khrushchev was in England, he said that East-West trade controls were not interfering with the Soviet military efforts. He also said the Soviet Union would soon experiment with dropping an H-bomb from a bomber.

Air Force Secretary Quarles later said he saw no reason to doubt

the truth of this second assertion.

Does this mean that the maintenance of East-West controls is not worth the expense and trouble which it causes us with our allies?

Admiral DeLany. Senator Green, I don't believe Mr. Khrushchev has been the first one from the bloc who has preached the ineffectiveness or has talked about the ineffectiveness of East-West trade controls.

I think that it can be an accepted fact that one squeals loudest when one is hurt most, and they have squealed very loudly about East-West trade controls. So I would assume that if that concept is correct, that

they are effective.

But I think it is also correct to say that nobody has had any idea that East-West trade controls could prevent the economic buildup of the bloc. East-West trade controls were directed toward a retardation of the military buildup, and an acceptance of the fact that no free world nations would make a contribution to that buildup.

So, within that concept, I think that the East-West trade controls

are worth the effort.

# DIFFERENCE OF CONTROLS ON TRADE WITH SOVIET UNION AND COMMUNIST

Senator Green. Well, do controls on trade with Communist China differ from controls on trade with the Soviet Union?

Admiral DeLany. Yes, sir, there is a broad difference.

Senator Green. In what respect? Are Chinese Communist controls harder to execute?

Admiral DeLany. Yes, sir. They are so much broader that it is much more difficult to make them effective.

Senator Green. What is the difference?

Admiral DeLany. The international controls include a great many more items, sir. There are many more items toward control of Communist China and North Korea than there are toward the eastern European Soviet bloc.

Senator Green. And that makes it harder to execute the controls.

Admiral DeLany. Yes, sir. Senator Green. I think those are all the questions I have, Mr.

The CHAIRMAN. Thank you very much, Admiral.

Admiral DeLany. Thank you, sir. It has been a pleasure to appear before you.

The CHAIRMAN. We are very glad to have your testimony.

You may put your full statement in the record.

Admiral DeLany. Yes, sir. (The statement is as follows:)

#### ADMINISTRATIVE EXPENSE OF CONTROL

The administrative expense of control, as defined in the authorizations and appropriations for Control Act expenses, has become relatively stabilized at a level just under \$1,200,000. These funds are used by the International Co-operation Administration, State Department units and the Commerce Depart-

ment's Bureau of Foreign Commerce by allocations made to them.

In the reorganization of last July abolishing the Foreign Operations Administration, the responsibility of administering the Mutual Defense Assistance Control Act of 1951 was lodged with the Director of the International Cooperation Administration within the State Department. The main functions involved in the administration of the Control Act are determining commodity items that should be subject to strategic export control by other friendly countries and coordinating the activities of the various United States departments and agencies which are concerned with security controls over exports from other countries to the Communist bloc.

The Deputy Director for MDAC is the focal point in ICA for carrying out the Director's responsibility of administering the Control Act. The bulk of the Control Act funds allocated to ICA goes to pay for the expenses of the Office of the Deputy Director for MDAC. In ICA there is also a small economic defense staff whose function is to represent the foreign economic assistance interest in the interagency councils and operations for carrying out the Control Act. A small portion of the ICA allocation pays for this unit. Overseas there is an ICA unit in the USRO Office of Security Trade Controls. This unit is financed from ICA's Control Act funds. Basically, its function is to provide regional coordination in Europe of enforcement activities, designed to insure the proper application in practice of the export controls adopted by the freeworld countries. In all, about \$400,000 of the Control Act appropriation is allocated for ICA expenses.

#### CONTROL ACT FUNDS

State Department receives a control act allocation of about \$600,000. In the departmental service, the main part of this is used to finance economic and trade analysis work which the Office of Intelligence Research carries out in support of the control act program. Overseas, it helps to finance the State contingent in the USRO Office of Security Trade Controls, which has the basic task of representing the United States in the international strategic trade control organization sitting in Paris (CG-COCOM-CHINCOM). Besides this, it provides financial support for the economic defense officers and staffs in various State missions around the world who carry on foreign negotiations on control act problems and provide field reporting on economic defense. The control act funds allocated to State Department supplement funds provided out of the regular State operating appropriations, so as to make possible an intensified level of activity adequate to cope with the difficult problems of controlling East-West trade.

Approximately \$200,000 of the control act funds is allocated to finance Commerce Department participation in the program. Commerce Department provides help mainly through the services of its export control technicians in the Office of Export Supply and its geographical and statistical experts in the Office of Economic Affairs.

The Defense Department also plays a major role in the execution of the control act program. However, it receives no control act funds in supplementation of the regular operating fund it devotes to the program. Other agencies, too, provide advice and supporting services for the program without receiving control act funds.

With so many agency interests necessarily involved in carrying out the Mutual Defense Assistance Control Act, an interagency committee structure has been developed to effectively bring together the advice and operating help of these various agencies. In this way, policy decisions can be made and policy direction developed for the program with full appreciation of the various factors and interests that are involved such as technical, foreign policy, economic, and military aspects.

The CHAIRMAN. We will recess until 10:30 tomorrow morning. (Whereupon, at 3:15 p. m., the committee recessed, to reconvene at 10:30 a. m., Friday, May 25, 1956.

# MUTUAL SECURITY ACT OF 1956

### FRIDAY, MAY 25, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to recess, at 10:40 a.m., in the committee room, United States Capitol Building, Senator Theodore Francis Green presiding.

Present: Senators George (chairman), Green (presiding), Fulbright, Sparkman, Humphrey, Mansfield, and Smith (New Jersey).

Also present: James W. Howe, program officer, ICA; and J. Carney

Howell, Deputy Controller, ICA.

Senator Green. The subject matter this morning is the mutual security program. The first witness is E. D. White, Deputy Director of the Food and Agriculture Division, International Cooperation Administration.

Mr. White, you may proceed.

# STATEMENT OF E. D. WHITE, ASSOCIATE DIRECTOR, OFFICE OF FOOD AND AGRICULTURE, INTERNATIONAL COOPERATION ADMINISTRATION

Mr. White. Mr. Chairman, in preparation for this hearing, the Department of State, the Department of Agriculture, and the International Cooperation Administration have prepared a joint statement of the basic facts relating to the section 402 programs, the Public Law 480 programs, and various related circumstances.

These have been put in compact form for the convenience of the

committee, and I would like to have this put in the record.

Senator Green. The statement will be put in the record.

Mr. WHITE. Yes, sir.

Senator GREEN. Will you sumarize it now?

Mr. White. I will summarize it now, if the committee so desires. Senator Green. Thank you.

(Mr. White's prepared statement is as follows:)

EFFECT OF SURPLUS AGRICULTURAL COMMODITY LEGISLATION ON THE MUTUAL SECURITY PROGRAM

Knowledge of the complex relationship between surplus agricultural commodity programs and mutual security programs is essential to an understanding of the administration of the latter. This document has been prepared to reflect a coordinated executive branch view on this many faceted problem. It is divided into six main parts. Parts I through IV deal with section 402 of the Mutual Security Act, as amended; title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) as amended, and the relationship be-

tween the two. Parts V and VI deal with the ocean freight requirements of titles II and III of Public Law 480.

#### I. SECTION 402 OF THE MUTUAL SECURITY ACT OF 1954, AS AMENDED

In its 8 years, ICA and its predecessor agencies have financed for export more than \$7 billion worth of agricultural commodities. However, the first agricultural surplus disposal language which appeared in the mutual security legislation was included under section 550 of the Mutual Security Act of 1951, as amended. Since that time mutual security appropriations have been used to the maximum extent consistent with the principal purposes of the mutual security legislation to finance the export of agricultural commodities.

#### A. Operations under section 550

Section 550 was similar in several respects to legislation now embodied in title I of the Agricultural Trade Development and Assistance Act (Public Law 480) in that the sales (a) were for local currency, (b) were required to be additional to usual marketings of the United States, (c) prices were required to be consistent with world market levels, and (d) the eligibility of commodities was determined by the Secretary of Agriculture. The two pieces of legislation were dissimilar, however, in that Congress did not appropriate additional money to cover the purchase of surplus commodities under section 550 but instead provided that funds appropriated for the mutual security program should be used to carry out its provisions.

Commodity sales were difficult under section 550 due to the combined effect of the usual-marketing provision and the fact that the sales were required to be within the dollar-aid allotments of the cooperating countries. Nevertheless, by the end of the year FOA lacked only \$5 million of having obligated the maximum limit of \$250 million which had been established by the Congress.

#### B. Surplus legislation expanded in 1954

During 1954, the Congress expanded the agricultural surplus disposal legislation by enactment of Public Law 480 and by revising the surplus disposal language in the mutual security legislation to make it complementary to Public Law 480. Changes in the mutual security legislation were embodied in section 402 of the Mutual Security Act of 1954 under which ICA's sales of surplus agricultural commodities have been conducted during both fiscal year 1955 and fiscal year 1956.

As in section 550 of the earlier act, the eligibility of commodities for delivery under section 402 are determined by the Secretary of Agriculture. Also, as was the case under section 550, the Congress did not appropriate additional funds to carry out the provisions of section 402. Instead, it was required that minimums of \$350 million and \$300 million of the funds appropriated for the mutual security programs, respectively, for fiscal year 1955 and fiscal year 1956 be used to carry out its provisions. The foreign currency proceeds from these sales are required to be used for the same purposes for which the dollar appropriations were made.

# C. Fiscal year 1956 section 402 minimum requirements difficult to attain

During fiscal year 1955, ICA was able with a reasonable effort to exceed the minimum requirement of \$350 million in section 402 sales by \$117 million, but in the year now ending—fiscal year 1956—the Agency is being exceedingly hard pressed to attain a lower requirement of \$300 million. This is principally due to the fact that aid programs shifted away from European countries which traditionally import large quantities of agricultural commodities to the underdeveloped countries whose economies are predominantly agricultural. This shift was principally responsible for a decline in ICA-financed sales of surplus agricultural commodities to Europe from \$303 million in fiscal year 1955 to an estimated \$68.5 million in fiscal year 1956.

Comparison by area of surplus agricultural commodity sales programs of the International Cooperation Administration, secs. 550 and 402

#### [Million dollars]

	Sec. 550		Sec. 402		
Area	Fiscal year 1954	Fiscal year 1955	Fiscal year 1956	Fiscal year 1957	
Europe Near East and Africa Asia Latin America Other programs	175. 8 2. 3 59. 7	302. 9 48. 7 113. 4 2. 1	68. 5 45. 5 133. 5 16 4	45. 0 43. 0 147. 3 14. 7	
Total	237. 8	467. 1	270. 9	250.0	

Differential between United States and world prices of sugar,

The decrease in the required minimum section 402 sales from \$350 million in fiscal year 1955 to \$300 million in fiscal year 1956 was far from adequate to offset the decrease in section 402 sales to Europe which is in the magnitude of \$235 million. As a consequence, ICA has had to greatly intensify its efforts to sell agricultural surpluses in those underdeveloped countries which currently are receiving ICA aid. Many of these countries preferred not to use their limited aid funds for surplus agricultural commodities in such amounts as would be necessary if the \$300 million requirement was to be met. It became necessary, therefore, to require each country to take specified amounts of aid in the form of surplus agricultural commodities. The amounts had to be assigned, of course, with due regard to the consumption requirements of the country, the availability of the same commodities from other sources, and to other urgent requirements In fact, because of these considerations, the quotas which could be assigned totaled substantially less than \$300 million. Unforeseen developments in three countries which subsequently caused small increases in agricultural commodity requirements and decision by the Department of Defense to use limited amounts of direct forces support funds for agricultural commodities have helped, but as yet have not been adequate to assure attainment of the \$300 million goal.

Up to January 31, 1956, sales of \$129 million worth of surplus commodities were authorized to 13 countries, including, aside from transportation costs, about \$56 million grain, \$44 million cotton, \$6 million fats and oils, \$5 million frozen beef, \$4 million dairy products, \$3 million sugar, and \$2 million of other surplus commodities. The sugar is part of the 100,000 tons which the Department of Agriculture procured to relieve a pressing domestic problem.

# D. Development of triangular sales

Negotiations for additional sales have continued but it now appears that it may be possible to attain only about \$270 million through direct sales. Anticipating this, ICA has been attempting to negotiate triangular sales through which surplus agricultural commodities could be shipped to nonaid countries in exchange for industrial items required by one or more ICA-financed aid countries.

Triangular sales have been difficult to arrange because of the requirement that the foreign currency sales proceeds must be used for the same purposes for which dollars were appropriated. Before concluding a triangular sale, therefore, ICA must assure that the local currency proceeds can be used for purchases of commodities at competitive prices which are needed for the specific program in the area of the world from which the appropriated dollar funds will be withdrawn. In addition, the noncompetitive price of United States cotton other than short staple during the first half of fiscal year 1956 has limited triangular as well as direct sales. Despite all of the foregoing difficulties, however, it still is possible that the \$300 million sales goal may be attained.

# E. Section 402 program for fiscal year 1957

The same difficulties in programing surplus agricultural commodities that have been experienced in fiscal year 1956 are expected to be encountered during fiscal year 1957. In fact, it does not now appear likely that the section 402 sales in fiscal year 1957 will equal those of 1956. For example, the unusual cir-

cumstances which brought about the sale of nearly \$18 million worth of sugar under the fiscal year 1956 section 402 program are not expected to be repeated. Also, the funds for European countries again have been curtailed and a further decline in section 402 sales from \$68.5 million in 1956 to \$45 million in 1957 is expected to the 3 eligible countries, Spain, Yugoslavia, and Germany. A strong effort will be made again to increase the section 402 program to Asian countries but it hardly seems likely that declines elsewhere can be fully offset by increases in Asia.

It is also probable that unusual increases in requirements for surplus agricultural commodities due to sudden and unforeseen circumstances are likely to be met through the several titles of Public Law 480 and accordingly cannot be expected to have other than minor effect on section 402 sales. During fiscal year 1955, \$38.9 million of military offshore procurement funds were used to supply surplus agricultural commodities and the foreign currency accruing therefrom was used for offshore military procurement. As yet, during fiscal year 1956 there was no firm prospects for such use of these funds. While efforts will continue to be made to take advantage of these funds for increasing surplus commodity sales, it would not be wise to depend on such funds for this purpose during fiscal year 1957. These considerations led to the decision to suggest a section 402 program for fiscal year 1957 of \$250 million, a reduction of \$20 million from the relatively firm direct sales prospects of \$270 million for this year.

# II. TITLE I OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954 (PUBLIC LAW 480) AS AMENDED AND OTHER SURPLUS DISPOSAL PROGRAMS

Several programs for the sale and disposal of agricultural commodities have an important bearing upon the foreign-aid programs. On the one hand there are opportunities to use these commodities, especially those in surplus supply, to complement our foreign-aid programs. On the other hand, there is a necessity to use them in such a way as to cause the least disruption in international markets and to avoid wherever possible adverse effects upon our foreign relations.

In assessing the effects of these programs, we must be ever mindful of the serious problems confronting our agricultural industry and the necessity of giving full support to the maintenance and expansion of markets for the produce of our farms. First a word about the surplus commodities situation.

#### A. The size of our surpluses

The Commodity Credit Corporation holds inventories of certain agricultural commodities and makes guaranteed loans on others. The borrowing capacity authorized by the Congress for these operations is \$12 billion and borrowing authority in use as of February 29, 1956, was approximately \$11.5 billion.

As of the same date, CCC had about \$8.9 billion invested in inventories and outstanding loans. A year before, CCC's investment in inventories and loans was about \$7.4 billion. This difference indicates that surpluses have continued to accumulate despite vigorous disposal activities.

Wheat, cotton, corn, tobacco, and rice account for most of our inventory. Compared with a year ago, CCC stocks of these five commodities have increased substantially, more than offsetting sharp decreases in our inventories of dairy products and cottonseed oil.

It is still a fact that our agricultural surplus far exceeds our needs. Although we have increased exports during the past 2 years, surpluses continue to grow even though at a slower rate.

#### B. Foreign disposal program

Government disposal programs have been a major factor in raising the level of agricultural exports. While such programs have been helpful, dispositions through commercial sales constitute by far the larger portion of commodities moving abroad.

Disposal programs are intended to supplement commercial sales and help broaden foreign markets for agricultural commodities. They are temporary expedients designed to help pull us through the period of readjustment to changed world demand and supply conditions.

There are six main Government programs now being used to dispose of our surpluses. These programs are: (1) CCC export sales program; (2) barter; (3) section 416, Agricultural Act of 1949; (4) title II, Public Law 480; (5) section 402, Public Law 665; and (6) title I, Public Law 480.

# C. CCC export sales

During the calendar year 1955, CCC sales of price support stocks to commercial firms for export amounted to more than \$500 million. During the first 3 months of 1955, the rate of sales has increased sharply, amounting to nearly \$250 million. Wheat is the major item, but sales of cotton, food grains, and cottonseed oil have also been substantial.

In addition to sales specifically for export, some of the commodities which CCC sells to commercial firms at domestic prices actually move into export outlets. We do not have an estimate of the quantity that is exported in this way.

#### D. Barter sales

Section 303 of Public Law 480 broadens the authority under which CCC may barter its commodities for strategic and other materials. These barter operations

are conducted through private United States trade channels.

Barter contracts having an export value of \$282 million were negotiated during the fiscal year 1955 as compared to a total of \$108 million entered into during the 5 preceding years. During the first 8 months of the current fiscal year barter contracts total \$131 million. Shipments last year were valued at \$124 million compared with \$180 million during the first 8 months of this fiscal year.

#### E. Section 416, donations

A substantial increase in the donations for relief use overseas has been made possible as a result of amendments to section 416 of the Agricultural Act of 1949, which were enacted in section 302 of Public Law 480.

Under this activity, commodities from CCC inventories are being made available to 19 approved United States private welfare agencies and distributed by them to needy persons in 74 foreign countries. The donations are made only when the amounts of the surplus commodities available are in excess of those that can be used by eligible recipients here at home. During the first 3 quarters of the current fiscal year, donations of CCC commodities for relief use overseas amounted to approximately \$250 million at CCC cost, as compared to about \$200 million during the entire fiscal year 1955. The Secretary of Agriculture recently announced the availability of wheat, corn, rice and dry beans for this program and some shipments have already been made. This new availability should result in still greater utilization of this disposal activity.

#### F. Title II, Public Law 480

Title II of Public Law 480, administered by the International Cooperation Administration authorizes grants of CCC commodities for foreign relief purposes. ICA reports that \$186 million worth of surplus agricultural commodities at CCC cost have been programed under title II since the beginning of the program through March 31, 1956. The total authorized is \$300 million. Additional data on this program is being made available to the committee by ICA.

#### G. Section 402, Public Law 665

Section 402 of the Mutual Security Act requires that not less than \$300 million of mutual-security funds must be used during the fiscal year 1956 for financing procurement of United States agricultural commodities by participating countries. More detailed information regarding the activities under this program may be found in the section headed "Section 402 of the Mutual Security Act of 1954, as amended."

#### H. Title I, Public Law 480

Public Law 480 (the Agricultural Trade Development and Assistance Act) as its title suggests, is directed primarily at the problems of disposing of surplus agricultural commodities. Title I authorizes CCC to incur costs of up to \$1.5 billion for sales for foreign currencies. It attempts to reach this objective through the fundamentally simple device of selling United States agricultural commodities in surplus supply to friendly countries willing to buy them with their own currencies. The commodities sold are over and above normal purchases from the United States.

This program is one of the most effective disposal tools we have. It has been a major factor in assisting United States exporters to sell abroad and in maintaining the relatively high export level of the past year. It is a means of bridging the gap between the commodity requirements of foreign countries and the scarcity of dollars with which to buy; it is enabling many countries to maintain and increase consumption levels without aggravating their foreign exchange difficulties.

Agreements have been entered into with 25 countries providing for commodities with a total export market value of about \$936 million and a CCC cost of approximately \$1¼ billion. Attached are table I and table II summarizing the title I (Public Law 480) programs in terms of value and in terms of approximate quantities.

Both section 402 and title I (Public Law 480) programs dispose of surplus commodities by sale for foreign currencies. However, there are certain funda-

mental differences between the two which merit explanation.

The bulk of section 402 sales are made to those countries in which foreign assistance operations are being carried on by the United States. Title I (Public Law 480) sales are made to any friendly country where the program may be used effectively, and which is willing and able to subscribe to the conditions established by the law. While the number of countries which can use these commodities is also somewhat limited, it has been possible to sell commodities to many countries in which section 402 programs could not be developed.

There are some countries where both 402 and title I (Public Law 480) programs have been used. In all such cases, the two programs are carefully integrated to assure the highest level of exports to that country consistent with the principles governing surplus disposals abroad. In no instance have the two programs "competed" with each other; title I (Public Law 480) is used to

supplement section 402 in those countries where both are used.

There is another difference between the programs which has enabled us to use title I (Public Law 480) effectively. Section 402 may be used to finance so-called usual United States marketings. This has been invaluable in keeping United States commodities moving to markets which otherwise might have shifted to other sources because of dollar difficulties. On the other hand, title I (Public Law 480) sales must be in addition to usual United States marketings. Section 402 financing has helped foreign countries to undertake substantial marketings which they could not have done if they had been required to draw upon dollar resources.

In addition to the differences relating to commodity sales, title I authorizes the use of foreign currencies accruing under the program for several uses in addition to the foreign assistance purposes to which section 402 proceeds are directed. Under title I, proceeds may be used for any of eight purposes, as follows:

(a) To develop new markets for United States agricultural commodities;

(b) To purchase strategic materials for stockpiling;

- (c) To procure military equipment, materials, facilities, and services for the common defense;
- $\left(d\right)$  To finance the purchase of goods and services for other friendly countries;
  - (e) To promote balanced economic development and trade among nations:

(f) To pay United States obligations abroad;

(g) For loans to promote multilateral trade and economic development; and

(h) To finance international educational exchange activities.

Generally speaking, these uses can be broken down into two categories, United States uses and foreign uses. The former includes both reimbursable and non-reimbursable uses. A portion of the currencies earmarked for United States uses are in effect "sold" to other United States agencies which sales are returned to CCC for reuse under title I (Public Law 480). The remaining amounts represent net increments to appropriated funds.

As a general rule, the amount of loans or grants in title I programs is kept at the minimum level negotiable. In unusual circumstances the economic situation in the country is taken into account in determining the loans and grants

to that country.

The authority with respect to the allocation of proceeds to 1 or more of the 8 authorized uses has been delegated to the Bureau of the Budget by Executive order of the President. However, the use of proceeds forms an interal part of the negotiations of the agreement. Therefore, it is generally necessary to agree upon the proceeds between United States and foreign uses before actual sales are accomplished and deposits made, because of the natural desire of foreign governments to obtain as favorable a division of uses as possible.

We recently submitted a report to this committee on the amounts of foreign currency planned for the financing of military and other mutual security type programs under title I of Public Law 480. Table III and IIIA showing all the planned uses of foreign currencies accruing under agreements signed through

April 15, 1956, are attached to this statement.

Country	Wheat	Feed grains	Rice	Cotton	Tobacco	Dairy products	Fats and oils	Other	Market value	Ocean trans- portation	Market value including ocean trans- portation <sup>1</sup>	CCC cost including ocean trans- portation <sup>1</sup>
Fiscal year 1955 agreements: Argentina							5. 7		5. 7	0.1	5.8	8. 7
Austria Chile	2, 2	4.5		0.5	0. 5		2.4		5. 5 4. 6	.6	6. 1 5. 0	8.3 7.7
Colombia Finland	1.6			1.6 2.9	2.2	0.7	1.0		4. 9 5. 1	.4	5. 3 5. 3	7. 1 5. 3
Greece	5. 3 5. 25	2. 7 3. 2	0.05	1, 1		2.7 1.0	2.4		13. 1 11. 5	1.5 1.5	14. 6 13. 0	20.9 20.6
Italy Japan	1. 6 22. 4	3. 0 3. 1	14.4	35. 9 34. 1	3. 2		4 5		48. 2 79. 0	1. 8 6. 0	50. 0 85. 0	53. 2 111. 3
KoreaPakistan				9. 4 21. 5	4.6 3.2	2.0	1.0		14.0 27.7	1.0 1.7	15.0 29.4	15. 0 31. 6
Peru Spain	6. 4	3, 4		8.7	2. 2	.2	5.0		6.6 19 3	.8 1.7	7. 4 21. 0	12. 5 24. 9
Thoiland Turkey	6. 5	12. 4		0. 1	1.9		4.1		1. 9 23. 0	. 1 6. 0	2.0 29.0	2.0 41.2
United Kingdom Yugoslavia	34.9	12. 4		9 6	15.0		<b>1.1</b>		15. 0 44. 5	. 2 7. 5	15. 2 52. 0	15, 2 79, 4
Total fiscal year 1955 agreements	86. 15	32.3	14, 45	125.3	38.0	6, 6	26. 8		329. 6	31.5	361.1	464.9
Fiscal year 1956 agreements:	80. 13	32. 3	14, 45	125. 3	38.0	0.0					301.1	404.9
Argentina	3. 4	6. 1		5.6	3.0		24.7 2.4	3 0. 3	24.7 20.8	0.6 1.6	25. 3 22. 4	25. 3 30. 5
BrazilBurma	32. 1	3.0		17, 5	0. 2 1. 1	2 0	1.8	2.2	37. 1 20. 8	4.7	41.8 21.7	78.0 21.7
ChileColombia	6. 2 3. 4			5 3 6.0	. 2	10	13.6 1.5	3 6. 2	32. 5 10. 9	2. 5 . 7	34. 6 11. 6	42.0 14.8
Ecuador Egypt	1.1 17.1			. 9	.2		1.5		3. 7 17. 1	.3 2.4	4.0 19.6	4 8 38.7
Finland France	3. 1	1.1		2. 9	3.8	. 5		2 1. 2	12 6 . 7	1.1	13. 7 0. 7	18. 2 0. 7
GermanyGreece							5. 9	41.2	1. 2 5. 9	.2	1. 2 6. 1	1. 2 6. 1
Indonesia Iran	5. 0 3. 9		35.8	36.0	15.0	6 0	1.4		91. 8 11. 3	4.9	96. 7 12. 1	135. 5 20. 5
Israel Korea	5. 9 6 4	3. 2 11. 5		1.5 7.8	2.0	2. 3 1. 0	2.2	5 10 3 5 8.0	25. 6 39. 7	2. 3 4. 1	27. 9 43. 8	38.3 60.2
Pakistan	0 4	11. 0	15.0	l	14.0	J	] 3.0	*8.0	15.0	1 19	16.9	30.2

See footnotes at end of table, p. 958.

Country	Wheat	Feed grains	Rice	Cotton	Tobacco	Dairy products	Fats and oils	Other	Market value	Ocean trans- portation	Market value including ocean trans- portation <sup>1</sup>	CCC cost including ocean trans- portation 1
Fiscal year 1956 agreements:—Continued Peru							3.0		3.0	.3	3.3	3.3
Spain Spanish-Swiss <sup>8</sup>	4.6	2. 3		24.5	2.0		51.1	<sup>7</sup> 5. 1	85. 0 4. 6	6.5	91. 5 5. 0	92, 5 9, 4
Turkey Yugoslavia	41.2			8.5			3.7 10.8		3.7 60.5	.3 10.6	4.0 71.1	4. 0 116. 2
Total fiscal year 1956 agreements	133. 4	27. 2	50.8	116. 5	28. 4	12.8	126. 6	32. 5	528. 2	46. 8	575.0	792. 8
Total agreements	219. 55	59. 5	65. 25	241.8	66.4	19. 4	153. 4	32. 5	857.8	78.3	936. 1	1, 257. 7

Table I.—Commodity composition of programs signed through Apr. 15, 1956, title 1, Public Law 480—Continued

<sup>1</sup> Includes only ocean transportation to be financed by CCC.

<sup>&</sup>lt;sup>2</sup> Fruit.

Hay and pasture seeds, \$2.5 million; frozen beef, \$3.7 million.

Poultry.
Dry edible beans. \$0.3 million; chilled or frozen beef, \$10 million.

<sup>6</sup> Canned pork.

Hams, \$2 million; pork products, \$1.4 million; potatoes, \$1.4 million; cotton linters,

<sup>8</sup> Wheat to be sold to Spain for resale to Switzerland for financing procurement of Swiss goods by Spain.

Table II.—Approximate quantities of commodities under agreements signed through Apr. 15, 1956, title I, Public Law 480

Country	Wheat	Feed grains 1	Rice	Cotton 2	Tobacco	Dairy <sup>3</sup> products	Fats and oils 4	Poultry	Dry edible beans
iscal year 1985 agreements:	Thousand bushels	Thousand bushels	Thousand hundredweight	Thousand bales	Thousand pounds	Thousand pounds	Thousand pounds 43,600	Thousand pounds	Thousand hundredweigh
Austria		2, 848		2. 5	900				
Chile	1, 202						17, 328		
Colombia	820			8. 2		3, 307	6,349		
Finland				15.7	3,690				
Greece.	3,004	2, 372				22, 025	12,980	- <b>-</b>	
Israel	2, 940	3, 074	7	6.0	250	2, 467	4,912		
Italy	948	1, 923		183.0	4,000		32, 143	<b>-</b>	
Japan	13, 523	2, 766	2, 111	175.0	6, 254		·		
Korea.				47.0	10,000				
Pakistan				112. 2	3, 650	4,000	8, 274	<b>-</b>	
Peru	3, 570					621			
Spain		2, 271		47. 5	4, 430		28, 571		
Thauand					2,700				
Turkey	3, 674	10, 335					27, 179		
United Kingdom					21, 489				
Yugoslavia	19, 290			55. 7					
Total fiscal year 1955 agreements	48, 971	25, 589	2, 118	652. 8	57, 363	32, 420	181, 336		

See footnotes at end of table, p. 960.

Table II.—Approximate quantities of commodities under agreements signed through April 15, 1956, title I, Public Law 480—Continued

Country	Wheat	Feed grains <sup>1</sup>	Rice	Cotton 2	Tobacco	Dairy products 3	Fats and oils	Poultry	Dry edible beans	Fruit and vegetables	Meat	Hay and pasture seeds
iscal year 1956 agreements:	bushels	Thousand bushels	Thousand hundred- weight	Thousand bales	Thousand pounds	Thousand pounds	Thousand pounds	Thousand pounds	Thousand hundred- weight	Thousand pounds	Thousand pounds	Thousand hundred- weight
Argentina							176, 400					
Austria	2,025			32 0	5,000	§ 11, 000	<sup>5</sup> 16, 552			6 2, 280		
Brazil	18, 995	2, 205		100.0	100	3 15, 432						
Burma Chile	3,674			100. 0 30. 0	1, 500 300	9, 900	<sup>5</sup> 88, 234				7 13, 214	
Colombia				34.3	300	3, 300	7, 792					
Ecuador	560			5.0	323		13, 629					
Egypt	10, 329			0, 0	020		20,020					
Finland	1,820	750		16.3	6,300	1, 163				6 11 000		
France	1,020				867					11,000		
Germany								3,000				
Greece.							30, 880					
Indonesia			5, 508	206.0	23,000							
Iran	2,120					12, 125	6,614					
Israel	3,486			8.6	300	8,326	13, 538		37		7 40, 000	
Korea	3,748	11, 804		45.0	4,000	10,000	20,000				7 21, 000	
Pakistan	[		2, 300									
Peru							22,000					<b></b>
Spain				<sup>2</sup> 156 7	-,		293, 568				7 7, 070	
Spanish-Swiss 8	2, 446											
Turkey							22, 046					
Yugoslavia	24, 830			48.6			§ 87, 964					
Total fiscal year 1956 agreements	78, 764	23, 610	7, 808	685, 2	45, 690	56, 946	810. 217	3,000	37	82, 297	81, 284	55
was control to a series and a s			=======							=======================================		
Total agreements	127, 735	49, 199	9, 926	1, 335. 3	103, 053	89, 366	991, 553	3,000	37	82, 297	81, 284	55

<sup>1 16.866.000</sup> bushels of corn. 4.791.000 bushels of oats, 21,747.000 bushels of barley, 5,795,000

<sup>14,866,000</sup> bushels of corn, 4,791,000 bushels of oats, 21,747,000 bushels of barley, 5,795,000 bushels of grain sorghums.

Includes 16,700 bales cotton linters for Spain.

33,574,000 pounds nonfat dry milk, 24,582,000 pounds evaporated milk, of which 15,432,000 pounds for Burma are on the basis of evaporated milk but condensed or evaporated milk may be purchased; 11,079,000 pounds butter, 2,888,000 pounds cheese, 2,220,000 pounds whey and 15,023,000 pounds ghee.

4200,955,000 pounds cottonseed oil, 8,899,000 pounds linseed oil, 118,873,000 pounds lard, 302,125,000 pounds cottonseed oil and/or soybean oil, 343,068,000 pounds cottonseed oil, soybean oil and/or lard, 12,121,000 pounds inclible tallow and/or grease, and 5,512,000 pounds edible tallow and/or grease.

<sup>&</sup>lt;sup>5</sup> Entire quantity for country is lard except Chile, which includes 3,357,000 pounds lard.
<sup>6</sup> Varieties and grades of fruit which will be purchased are not known at this time. Quantities shown were computed as follows: Austria 35 of amount programmed for fruit, basis canned peaches and 15, basis dried prumes; Burma, basis raisms, Spain, basis potatoes; Finland, basis dried prunes and raisms.

<sup>7</sup> Israel and Chile, chilled or frozen beef, Korea, canned pork (luncheon meat); and Spain, 3,570,000 pounds canned bork (luncheon meat).

<sup>8</sup> Wheat to be sold to Spain for resule to Switzerland for financing procurement of Swiss gradels in Spain.

goods by Spain.

Table III.—Planned uses of foreign currency under title I, Public Law 480 programs 1955 and 1956 fiscal years, Apr. 15, 1956 [Million dollars]

Country	Total amount programed (market value including ocean trans- portation)	Market development	Purchase of strategic material (104b)	Military procure- ment (104c)	Purchase of goods for other countries (104d)	Grants for multilateral trade and economic development (104e)	Payment of United States <sup>2</sup> obligations	Loans for multilateral trade and economic development (104g)	International education exchange (104h)
Fiscal year 1955 agreements:		0. 2					3 0	2 3 1 5	0 3
Austria Chile Colombia	3 6. 1 5. 0 5 3	.2 .2 .5					3. 2 . 5 1. 9 4. 8	4. 0 3. 0	.3
Finland Greece Israel Italy	5 3 3 14 6 13. 0 50. 0	.2 .2 .3			3 1	7. 5	1. 8 1. 8 12. 7	4. 2 7 4 30. 0	.4
Japan Korea Pakistan	85. 0 15 0	2. 0 5 1. 6	1.0	6. 0 14. 9	5. 5		17 2 8. 5 2. 9	59. 5 10 0	. 8
Peru Spain Thailand	7. 4 21. 0 2. 0	. 5 1. 0 . 2	1.0				1. 4 8. 0 1. 0	5. 4 10. 5 . 8	. 5
Turkey United Kingdom Yugoslavia	29. 0 15. 2	.7		4 15 2 37. 8			13 8 14 2	14 5	
Total fiscal year 1955 agreements Total fiscal year 1956 agreements	361. 1 3 575 0	9. 4 8. 0	2. 8 5 8	73. 9 107 2	13. 2 5 4	7. 5	97. 3 150 2	153. 1 293 2	3. 4 4 5
Total agreements Uses as percent of total <sup>3</sup>	936. 1 100 0	17. 4 1. 9	8.6	181 1 19. 4	18 6 2 0	7. 5	247 5 26 4	446 3 47. 7	7.9

<sup>&</sup>lt;sup>1</sup> Amounts shown on this table are subject to adjustment when actual purchases have been completed.

year 1956 total, \$753,500 in excess of amounts provided in agreements for which currenc y uses have not been specified. These unspecified uses amount to 0.1 percent of total

 <sup>2</sup> Some agreements lump authorized currency uses, especially under secs. 104 (a), (f), and (h). Where estimates of distribution among the authorized uses are available, the estimate is shown under the specific section. Otherwise 104 (f) may include sums which may be distributed over a number of United States uses.
 3 Total amount shown for Austria includes \$184,000, total for Greece, \$272,000, and fiscal

<sup>&</sup>lt;sup>4</sup> In return for this currency use the United Kingdom Air Ministry will construct and make available to United States Armed Forces an equivalent value of dependent housing in the United Kingdom.

Table III-A.—Planned uses of foreign currency under title I Public Law 480 agreements signed fiscal year 1956 through Apr. 15, 1956 [Million dollars]

Country	Total amount programed (market value including ocean trans- portation)	Market development	Purchase of strategic material (104b)	Military procure- ment (104c)	Purchase of goods for other countries (104d)	Grants for multilateral trade and economic development (104e)	Payment of United States <sup>1</sup> obligations (104f)	Loans for multilateral trade and economic development (104g)	International education exchange (104h)
Fiscal year 1956 agreements: Argentina Austria Brazil	25. 3 2 22. 4 2 41. 8	0.3 .5 .7	2.8		1, 0 2, 0		5. 9 5. 3 5. 5	17. 7 14. 5 31. 3	0.4
Burma Chile Colombia Ecuador Egypt	21. 7 34. 6 11. 6 4. 0 19. 6	.6 .6 .2	1.0		.5		21. 7 6. 0 2. 2 . 5 2. 0	27. 7 7. 0 3. 1 13. 7	.3 .3 .2 1.0
Finland France Germany Greece	13.7 .7 1.2 6 1	. 6 1, 1					13. 7 .1 .1 1. 8	4.3	
Indonesia Iran Israel Korea Pakistan	96. 7 12. 1 27. 9 43. 8 16. 9	1.0 .2 .1	2.0	5. 9 39. 4 11. 0			15. 8 3. 3 6. 4 4. 4 3. 4	77. 4 2. 5 21. 4	.5
Peru Spain. Spanish-Swiss <sup>3</sup> Turkey	3. 3 91. 5 5. 0 4. 0	1.0					.7 36.2 2.0 2.0	2.3 53.8 3.0 2.0	.5
Yugoslavia  Total  Uses as percent of total 3	71. 1 575. 0 100. 0	8. 0 1. 4	5. 8 1. 0	50. 9 107. 2 18. 7	5. 4 . 9		11. 2 150. 2 26. 1	9. 0 293 2 51. 0	4.5

<sup>&</sup>lt;sup>1</sup> Amounts shown under 104 (f) may include sums which may be distributed over a

number of United States uses.

Total amount for Austria is \$143,500 and total amount Brazil \$610,000 in excess of amounts provided in agreement, for which currency uses have not been specified. These unspecified amounts represent 0.1 percent of total currency uses.

<sup>&</sup>lt;sup>3</sup> Spanish pesetas from sale of wheat to Spain for shipment to Switzerland in exchange for Swiss goods.

Table IV.—Agricultural commodities exported through barter in specified periods <sup>1</sup>

[Quantities in 1,000 units]

		1949-50		July-December 1955 <sup>2</sup>			
Commodities	Unit	through 1953–54	1954-55	Under all contracts	1954-55 contracts	1955–56 contracts	
Wheat Corn Grain sorghums Barley Cottonseed oil Others 3	BusheldoHundredweight.BushelPoundM. T	33, 445 9, 388 990 4, 630 33	46, 261 4, 381 4, 725 5, 244 19, 687	28, 100 42, 561 15, 821 25, 213 14, 434 194	26, 945 29, 648 12, 906 21, 230 14, 434 162	1, 155 12, 913 2, 915 3, 983	
Total value (million dollars)		107. 6	124. 6	167. 4	138. 5	28 9	

<sup>1</sup> Year beginning July 1.

<sup>2</sup> December partly estimated.

Table V.—Distribution of donated surplus commodities to foreign outlets— July 1, 1955, to Mar. 31, 1956

Commodity	Million pounds	Million dollars	Commodity	Million pounds	Million dollars
Butter	93. 5 76. 8 (96 0) 117. 9 337. 1 13. 3 1. 2	59. 8 62. 2 48. 3 64. 0 1. 3	Rice_Shortening	20. 5 4. 3 143. 8 12 7 821 1 (840. 3)	2 3 1 1 7. 4 3. 2 249. 6

Less than \$50,000.

### III. TITLE I LOANS TO PROMOTE MULTILATERAL TRADE AND ECONOMIC DEVELOPMENT

### a. Background

Section 104 (g) of Public Law 480, title I, as amended, provides that local currencies may be used for loans to promote multilateral trade and economic development, made through established banking facilities of the friendly nation from which the foreign currency was obtained or in any other manner which the Presi-

dent may deem to be appropriate.

Sales agreements uniformly specify the proportion of local currency proceeds which may be used for (a) United States Government expenditures, and (b) loans to promote multilateral trade and economic development. In some few cases the sales agreement or the loan agreement will specify the uses of the loan in broad categories. More generally, the uses of the loan are left for agreement between the foreign government and the ICA Mission and subject to review in Washington before actual disbursement of loan funds.

### b. Loan terms

The terms of these loans have been determined in consultation with the National Advisory Council on International Monetary and Financial Problems. Those terms provide for repayment within not more than 40 years and a number of loans have been made, or agreed, for terms of from 10 to 30 years. Interest does not accrue until 3 years after the first disbursement under the loan and is payable semiannually beginning 6 months thereafter. Principal payments begin the fourth year after the first disbursement under the loan and are payable semiannually thereafter.

The borrowing country, except in the case of Brazil, signs a dollar loan agreement and is required to repay at a realistic exchange rate if it repays in local currency. The borrowing country may elect on each payment date to pay either in dollars or local currency. The interest rate is 3 percent for repayment in dollars and 4 percent if payment is in local currency. Payments are on an increas-

<sup>3</sup> Includes oats, flaxseed, rye, cotton, dried skim milk, rice, linseed oil, cottonseed meal, soybeans, tobacco, and peanuts.

U S. Department of Agriculture Apr. 6, 1956.

ing scale, per million dollars lent, increasing for a 4-percent 40-year loan by increments of \$216 from \$20,000 in the middle of the fourth year to a final payment of \$35,790, and on a 3-percent loan increasing by increments of \$250 from \$15,009 in the middle of the fourth year to a final payment of \$33,261.

### c. United States use of loan repayments

Loan repayments may be used by the United States under the agreements for (1) any expenditures of or payments by the United States in the country or territories of the borrower; (2) investment in interest-earning obligations or local currency deposits; (3) if not already provided by the sales agreement, payment of interest and principal may be made by delivery of materials to the United States for stockpiling, by mutual agreement; or (4) such other valuable consideration as may be mutually agreed. The United States agrees to consider the economic position of the borrowing country in connection with the use of local currency payments under the loans.

### d. Loan services by Export-Import Bank

The Export-Import Bank signs the loan agreements and receives notes for the United States, accounts for disbursements, and collects interest and principal payments.

### IV. RELATIONSHIP BETWEEN TITLE I, PUBLIC LAW 480, AND MUTUAL SECURITY PRO-GRAMS WITH RESPECT TO COMMODITIES AND FOREIGN CURRENCIES

### A. No duplication between section 402 and Public Law 480, title I

In order to be eligible for any commodity under title I, Public Law 480, a purchasing country is required to maintain its normal level of imports of that commodity from the United States. In most instances, countries receiving foreign aid do not have the foreign exchange to maintain this normal level of imports. Section 402 may, therefore, be utilized for this purpose, thus providing the basis for the title I, Public Law 480 sale to proceed. Likewise, the opportunity for a title I, Public Law 480 purchase, contingent upon meeting normal marketing requirements, may increase a country's interest in accepting a larger portion of its mutual security program in the form of section 402 surpluses. Thus the two programs serve to complement each other.

### B. Area of no duplication with respect to countries

The section 402 and Public Law 480 programs could not duplicate each other where only one such program is operating in a country. In 11 of the 25 countries for which title I, Public Law 480 programs have been approved to date, there have been no section 402 programs; so there is no possibility of duplication in these 11 countries.

The countries are Finland, Burma, Japan, Indonesia, Thailand, Argentina, Brazil, Chile, Colombia, Ecuador, and Peru. The programs in these countries total \$368.5 million.

#### C. Area of no duplication with respect to commodities

In the remaining 14 countries, that account for 80 percent of the total section 402 programs in fiscal year 1955 and 64 percent of the section 402 program in fiscal year 1956, the agricultural commodities in 5 of these 14 countries under section 402 in each year were entirely different than those made available under Public Law 480, or there was no section 402 program in the year for which a Public Law 480, title I program was in effect. Therefore, there was no duplication from a commodity standpoint in these 5 countries, and they accounted for almost 40 percent of the total section 402 programs in the 14 countries. The countries were France, United Kingdom, Germany, Pakistan, and Iran.

### D. Section 402 used to meet usual requirements

In the 9 remaining countries—Austria, Italy, Spain, Yugoslavia, Egypt, Greece, Israel, Turkey, and Korea—to which the same commodities have been made available under both title I, Public Law 480 and section 402, 70 percent of the section 402 sales in fiscal year 1955 were used to meet the usual marketing requirements for Public Law 480 commodities, and 66 percent of the total section 402 sales in fiscal year 1956 were used to meet the same requirements. Again, and to this extent, the two programs did not duplicate each other.

#### E. Small area where duplication is possible

There remains a small area amounting to 15 percent of section 402 programs for fiscal year 1955 and fiscal year 1956 within which both title I, Public Law

480 and section 402 programs have been used to supply the same commodities in excess of usual marketings. These cases have been carefully worked out to avoid any waste of United States resources.

### F. Title I foreign currencies decrease ICA appropriation requests

With respect to the use of local currency, our mutual security programs were carefully examined at every stage of their development to assure as nearly as possible that no money was being requested which duplicated local currencies available or anticipated to be available as a result of Public Law 480 transactions. In his guidelines for the preparation of the mutual security programs, the Director instructed his field staff to eliminate from their requests all funds that were for purposes which could be covered by Public Law 480 local currencies. Subsequent to these instructions, every effort was made in the development, review, and approval of these estimates in Washington to assure that the Director's instructions were fully met.

# G. Large portion of title I, foreign currencies not generated in mutual security countries

There are certain factors which limit the extent to which Public Law 480 local currency can substitute for mutual security requirements. It should be borne in mind that a large portion of the Public Law 480, title I, local currencies, nearly 49 percent, is being generated in countries where there are no significant mutual security programs of defense support or development assistance. For example, in Latin America, mutual security programs are limited for the most part to technical cooperation which, being a dollar cost, cannot be met by Public Law 480 local currencies. In the second place 16 percent of the total Public Law 480, title I, currencies is generated in countries where such programs of defense support or development assistance exist together with title I, Public Law 480 programs but where such currencies are devoted to United States uses.

# H. Title I currencies frequently not usable to meet mutual security objectives

In the third place, even if there are defense support or development assistance programs in a country where there are substantial Public Law 480 currencies available for economic development in the common defense, it often occurs that mutual security objectives are based upon needed foreign exchange rather than upon the need for local currency in which event the two programs do not duplicate. This is true in large measure in 6 countries which account for 28 percent of all Public Law 480, title I, currencies (Spain, Pakistan, Turkey, Egypt, and Israel). Another case where there is no duplication, is where Public Law 480 local currencies are available only for economic development and where the mutual security requirement for local currencies is solely to support the military effort. For example, in Greece, Public Law 480 currencies are devoted entirely to economic development, whereas under the mutual security program, the objective is to support the military effort. This accounts for 2 percent of all Public Law 480, title I, currencies. Thus 95 percent of the total availability of all title I. Public Law 480 currencies are accounted for.

### I. Public Law 480 currencies supplement mutual security funds

There are some instances where Public Law 480 currencies can and do supplement mutual security funds, and in these cases it is possible to achieve desirable foreign policy objectives that cannot be reached under either program taken alone, such as Iran and Korea. These two countries account for the remaining 5 percent of all Public Law 480, title I, currencies.

Table I.—Section 402 programs in countries having no Public Law 480, title I programs

### [In millions of dollars]

Area and country	Fiscal year 1955	Fiscal year 1956
Europe	\$7. 7	
Denmark	4. 0 3. 7	
Asia	84 7	\$78.9
Cambodia. India Laos. Philippines. Tsiwan Vietnam	30. 0 3. 5 8 0 38. 5 4. 7	2. 2 20. 0 . 4 8. 6 33. 7 14. 0
Latin America	2 1	16. 4
Bolivia Guatemala	2. 1	14. 1 2 3
Other programs.		1 1. 3
Total	94. 5	96 6

<sup>&</sup>lt;sup>1</sup> Differential between United States and world price of sugar.

Table II.—Public Law 480, title I programs in countries having no sec. 402 programs

# [In millions of dollars]

	Marke	Market value		
Area and country	Fiscal year 1955	Fiscal year 1956		
Europe	\$5. 3	\$13.		
Finland	5. 3	13.		
Asia	87.0	118.		
Burma. Japan Indonesia. Thailand	85. 0 2. 0	21 96		
Latin America	23. 5	120.		
Argentina Brazil Chile	5. 8	25. 41. 34.		
Colombia Ecuador Peru	5 3	11. 4		
	7.4	3		
Total	115.8	252		

Table III-A.—Sec. 402 programs and Public Law 480, title I programs in countries having both programs in fiscal year 1955

[In millions of dollars-market value]

Area and country	Sec. 402	Public Law 480, title I
Europe	\$103.7	\$129.1
Austria	.9	6. 1
Italy	24.8	50.0
Spain	55.0	21.4
Yugoslavia	23.0	52.0
Near East and Africa	45. 0	56.
Greece	19.0	14.
Israel	18. 2	13.
Turkey	7.8	29.
Asia	28.7	15.
Korea	28. 7	15.
Total	177. 4	200.

# Table III-B.—Sec. 402 programs and Public Law 480, title I programs in countries having both programs in fiscal year 1956

[In million dollars, market value]

Area and country	Sec. 402	Public Law 480, title I
Europe	\$52.0	\$167. 6
SpainYugoslavia	27. 0 25. 0	96. 8 71. 1
Near East and Africa	45. 5	53. (
Egypt	4. 3 26. 2 15. 0	19. 6 6 1 27. 9
Asia	52. 4	43. 8
Korea	52. 4	43. 8
Other programs	1 4. 3	
Total	154. 2	265. (

<sup>&</sup>lt;sup>1</sup> Differential between United States and world prices of sugar.

# Table IV-A.—Programs of countries in which commodities received under sec. 402 and title I of Public Law 480 were different in fiscal year 1955

### [In millions of dollars]

Area and country	Sec. 402	Public Law 480, title I
Europe	\$191.5	\$15. 2
France Germany United Kingdom	90. 1 26. 9 74. 5	15. 2
Near East and Africa	2. 7	
Iran	2. 7	
Asia		29. 4
Pakistan		29. 4
Total	194. 2	44. 6

Table IV-B.—Programs of countries in which commodities received under sec. 402 and title I of Public Law 480 were different in facal year 1956

[In million dollars]

Area and country	Sec. 402	Public Law 480, title I
Europe	16. 5	1.
France Germany	16. 5	1.
Near East and Africa		12.
Iran		12.
Asia	2.2	16.9
Pakistan	1 2. 2	16.9
Total	18.7	30.

<sup>&</sup>lt;sup>1</sup> Excludes \$1.4 million differential between United States and world price of sugar.

### V. OCEAN FREIGHT REQUIREMENTS OF TITLE II, PUBLIC LAW 480

### A. Background

FOA and its predecessor agencies administered several programs prior to July 1954 which assisted friendly countries in meeting emergency requirements. Such programs included the India Emergency Food Aid Act of 1951, and Public Laws 77 and 216, 83d Congress. These programs were similar in nature to title II of the Agricultural Trade Development and Assistance Act of 1954, Public Law 480, 83d Congress, as amended. ICA has primary responsibility for administering this section of the act which provides that up to \$300 million worth of surplus commodities held by the Commodity Credit Corporation may be used over a 3-year period to provide assistance to friendly peoples in meeting famine or other relief requirements.

### B. Program policy

Formulation of policy in connection with the title II programs, insofar as it relates to United States foreign policy objectives, is subject to guidance from the Secretary of State. Present program policy provides that grants of commodities should be made primarily to assist people who, because of natural calamity, are unable to provide for themselves and to whom distribution will normally be made free of cost. As an exception to this general rule, however, there have been some instances in which it has been determined to be in our national interest or for practical reasons to permit recipient countries to use some of the commodities as payment for work relief or to sell them to consumers. In the latter situation, the sales proceeds must be used by the foreign country, upon agreement with the United States, for purposes designed to strengthen and rehabilitate its economy, except for small portions reserved, in some cases, for United States purposes.

### C. Description of programs

Up to March 31 of the current fiscal year transfer of about \$77 million of surplus commodities has been authorized. On the basis of this experience, together with some program commitments already undertaken, it is estimated that a total of \$95 million of these commodities will be used in fiscal year 1956 and about the same amount in fiscal year 1957.

About \$53 million of grains, including wheat and wheat flour, feed grains and rice, have comprised the major portion of the programs. \$15 million of powdered milk and approximately \$9 million of fats and oils, dry beans and raw cotton have also been supplied. Italy (\$18 million for school-lunch program), Pakistan (\$36 million for famine relief), and Turkey (\$13 million for alleviation of food shortage resulting from freezing weather) have been the largest recipients so far this year. Packages or containers of food for distribution are marked with the ICA clasped-hands emblem and labeled "Gift of the people of the United States of America." Containers may also be stamped or tagged with this information in the language of the country. On these commodities, as well as on bulk commodities, the foreign governments agree to arrange for suitable publicity within the country to identify the commodities furnished as gifts of the people

of the United States. United States diplomatic missions review the foreign governments' plans for distribution and observe and report on the conduct of

operations.

Commodities have been provided to alleviate suffering caused by floods, hurricane, drought, and other natural disasters. In addition, surplus commodities will be supplied to expand school-lunch programs in Italy and Japan. These programs are designed to increase the amount of food available and to improve the diet of the schoolchildren. In this way, it is hoped that, besides serving humanitarian purposes, a foundation will be laid for long-run increases in the consumption of United States surplus products. In response to requests from the United States voluntary agencies, relatively small amounts of cotton will be made available to them for use in their foreign-assistance programs.

The status of the fiscal year 1956 title II programs up to March 31 is shown on

the attached tables.

### D. Ocean freight costs

In fiscal year 1955, \$12.5 million of mutual security funds were used to finance about 90 percent of the total ocean freight of \$14.1 million for title II shipments.

The recipient countries financed a total of \$1.6 million.

In fiscal year 1956, total freight costs are estimated at \$13.4 million, of which \$9 million will be financed from mutual security funds. This amount includes \$3.5 million of the funds specifically appropriated for ocean freight on both title II and title III shipments, and \$5.5 million transferred from funds otherwise appropriated. The remainder of the freight costs, amounting to \$4.4 million, or about one-third of the total, will be borne by recipient countries and to a small extent by the voluntary agencies for the relatively small amounts of cotton made available to them. The increase in fiscal year 1956 in the amount of freight charges funded from sources other than the mutual security program is largely due to the fact that Italy and Japan have agreed to pay all of the ocean freight on commodities supplied for the school-lunch programs.

A specific appropriation of \$2 million is requested to finance title II ocean freight costs for fiscal year 1957. It may be necessary to supplement this amount by transfer of \$4 million of funds appropriated for other programs. This tentative estimate of \$4 million, together with the \$2 million requested for fiscal year 1957, will cover less than half of the total estimated title II freight cost of \$13.4 million. The reduction from fiscal year 1956 in the amount of freight costs financed from mutual security funds is based on the expectation that the recipient governments and to some extent the voluntary agencies will continue to finance

a larger share of the ocean freight.

Table 1.—Title II, Public Law 480, shipments authorized, by country, July 1, 1955-Mar. 31, 1956

	Million dollars (CCC cost)
Europe	18. 1
Germany, Federal Republic	3
Italy	
Near East and Africa	55. 5
India	3.6
Libya	2.7
Pakistan	
Turkey	
	====
Far East: Cambodia	2. <b>5</b>
Latin America	1.0
British Honduras	
Costa Rica	
Guatemala	.5
Total	77. 1
77298—56——62	

Table 2.—Title II, Public Law 480, shipments authorized, by commodity, July 1, 1955-Mar. 31, 1956

Commodity:	Million dollars (CCC cost)
Bread grains	28. 9
Coarse grains	6
Rice	23. 2
Fats and oils	
Milk and milk products	14. 9
Dry beans	
Cotton	1. 7
Total	<del></del> 77. 1

Table 3.—Public Law 480, July 1, 1955-Mar. 31, 1956

[Million dollars, CCC cost]

	Transfer authorizations							
Item	Total	Bread grains	Coarse grains	Fats and oils	Dry beans	Milk and milk prod- ucts	Rice	Raw
Fiscal year 1956 program; Europe, total	18. 1	3. 1		3, 1	0.7	10.8		0.4
Germany, Federal Republic. Italy	17. 8	3. 1		3. 1	.7	10. 8		.3
Near East and Africa, total	16. 1	8.3		3.7		4. 1	(1)	
Libya Turkey	2. 7 13. 4	2. 7 5. 6		3.7		4.1	(1)	
South Asia, total	39. 4	17. 5					20, 6	1.3
IndiaPakistan	3, 6 35, 8	1. 0 16. 5					2, 6 18. 0	1. 3
Far East, total	2. 5						2, 5	
Cambodia	2. 5						2. 5	
Latin America, total	1.0	(1)	0.5	.2	.1		.1	
Guatemala Costa Rica British Honduras	.5 .2 .3	(1)	(1) (1)	.1	(¹) .1	.1	.1	
Total, fiscal year 1956 program	77. 1	28. 9	.5	7.0	.8	15. 0	23. 2	1.7

<sup>1</sup> Less than \$50,000.

# VI. OCEAN FREIGHT REQUIREMENTS, TITLE III, PUBLIC LAW 480

#### A. Background

Each year, beginning with the ECA Act of 1948, Congress has provided funds to further the efforts of United States nonprofit voluntary agencies by paying the ocean freight on their relief shipments to certain countries. The authority for this is now contained in section 409 of the Mutual Security Act of 1954, as amended. An increasing volume of United States surplus agricultural commodities has been moved abroad in recent years through the programs of United States voluntary agencies. These agencies, which have been making regular relief distributions for many years, present a ready-made channel for the disposal of surplus foods for charitable purposes.

# B. Authority, availabilities, recipients

The authority under which the United States voluntary agencies obtain these surplus commodities is found in section 302, title III of Public Law 480. Eligible agencies are defined in that statute as those registered with and approved by the Advisory Committee on Voluntary Foreign Aid of ICA. The commodities

now available under this authority are: butter, cheese, dry milk, wheat, rice, corn, and beans, the latter four having been added in mid-December 1955. Under the present authority these foodstuffs are turned over by the Department of Agriculture to the eligible voluntary agencies at United States port. Distribution is carried out without cost to needy persons. Needy persons are defined as "those who by virtue of their personal economic status are in need of food assistance." Generally speaking, therefore, these foods are received by persons who would not have the means to purchase them on the commercial market.

### C. Ocean freight costs and projected movements

An appropriation of \$12 million is being requested to cover ocean freight costs on that part of the program which is handled by the United States voluntary agencies under title III. This represents a reduction of \$500,000 against the amount actually programed for such movements during fiscal year 1956. This reduction is accounted for partially, at least, by the fact that several receiving countries have agreed to take over the ocean freight costs on these surplus commodities in fiscal year 1957 (title III ocean freight financing by recipient countries and voluntary agencies or either is expected to increase from \$3.5 million in fiscal year 1956 to \$7.2 million in fiscal year 1957). On the other hand, the savings resulting thereby have been largely offset by the substantially increased potential for surplus shipments in fiscal year 1957 resulting from the availability for the first time under title III of wheat, rice, corn, and beans. The \$12 million which is being requested would move approximately 735 million pounds of all the available surplus foods. The \$7.2 million which it is estimated will be available from other than United States Government sources will move roughly 440 million pounds, making a total of 1 billion, 175 million pounds as the projected movement under title III. This compares with 903 million total pounds in fiscal year 1956 and roughly 560 million pounds in fiscal year 1955.

### D. Method of distribution

In accordance with established practice of American voluntary agencies in making relief distribution abroad, these agencies maintain United States citizen representatives in the countries of distribution and the United States origin of the commodities is clearly identified. Also duty-free entry is accorded and the receiving governments cover the cost of internal transportation. To insure effective distribution, the program is constantly under review. In each of the receiving countries, a coordinating committee has been established by the ICA field mission, in which representatives of the voluntary agencies and the indigenous government authorities participate. Through this mechanism, program requests are developed based on actual need and assurance is obtained that this free-donation segment of the surplus disposal program is not in conflict with or prejudicial to other United States food-disposal programs.

### E. Value of program

The availability of these surplus foods has proved of great benefit to these private agencies in carrying forward their humanitarian activities around the world. It permits them to distribute substantially larger amounts of relief foods than would be possible from their own private financing. The food is interpreted as a gift of the American people, and is helpful in maintaining a bond of friendship between our people and our less fortunate friends abroad.

### F. The participating agencies

The following 21 agencies are those which are participating in the program during this fiscal year: American Friends of Austrian Children; American Friends Service Committee; American Fund of Czechoslovak Refugees; American Jewish Joint Distribution Committee; American Mission to Greeks; Assemblies of God—Foreign Service Committee; Catholic Relief Services—National Catholic Welfare Conference; Church World Service; Congregational Christian Service Committee; Cooperative for American Remittances to Everywhere (CARE); Inc.; Foster Parents' Plan for War Children; International Rescue Committee; Iran Foundation; Lutheran World Relief; Mennonite Central Committee; Roumanian Welfare; Tolstoy Foundation; Unitarian Service Committee; United Lithuanian Relief Fund of America; United Ukranian American Relief Committee; and World University Service.

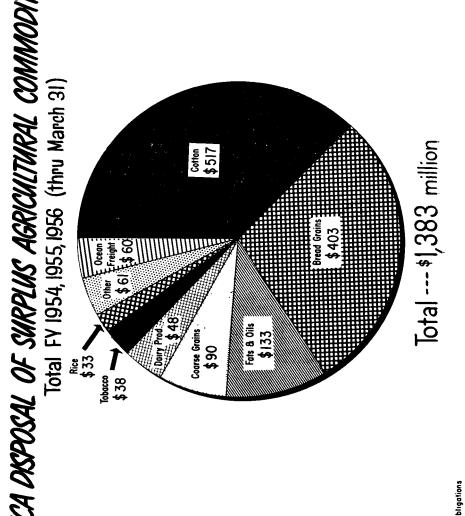
Senator Green. There are also here on the desk three plates. Are you going to allude to those before the committee?

Mr. White. There are three charts distributed for informational purposes, and they may also be submitted for the record, if the committee desires.

Senator Mansfield. Mr. Chairman, I suggest that we make these charts a part of the record, and that they be placed at the appropriate places.

Senator Green. Yes, that will be done.

### EARLIER AGRICULTURAL SURPLUS PROGRAMS



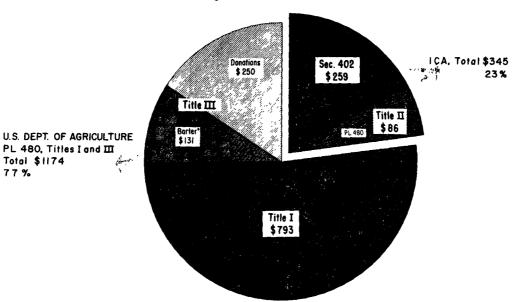
# MUTUAL SECURITY ACT

# FY 1956 SURPLUS AGRICULTURAL DISPOSAL PROGRAMS

Obligations as of March 31

PL 480. Titles I and III

Total \$1174 77%

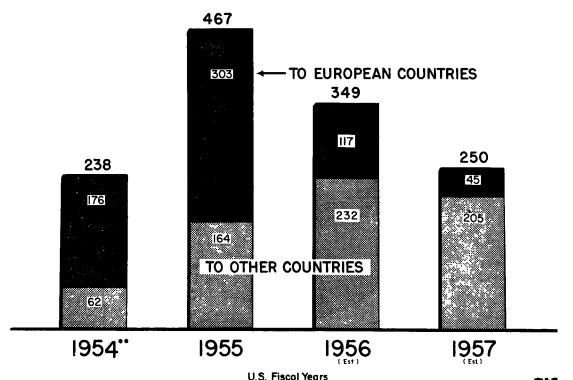


Total All Programs --- \$1,519 million

Note: Values include ocean freight and are at CCC cost except Sec. 402 and Barter which are at market value Source ICA and U.S. Dept. of Agriculture

# ICA SALES OF SURPLUS AGRICULTURAL COMMODITIES'

(Millions of Dollars)



Mr. White. During the past 8 years, ICA and its predecessor agencies have financed over \$7 billion of agricultural commodities, practically all of which has been of the kinds that were surplus in the

United States.

The first special surplus legislation on agricultural commodities, as such, was section 550 incorporated in the fiscal 1954 Mutual Security This section provided for setting aside \$250 million to be used only for the export of surplus agricultural commodities, those designated by the Secretary of Agriculture to be in surplus supply in the United States.

Pursuant to that section, FOA was able to finance \$238 million

worth of surplus commodities.

The next legislation was section 402, incorporated in the fiscal 1955 mutual security program, and set aside, of the funds appropriated, not less than \$350 million to be used in the same manner.

DISTINCTION BETWEEN SECTIONS 402, 550, AND PUBLIC LAW 480

Senator Smith. May I interrupt just a second?

I have always been confused about section 550, section 402, and Public Law 480. What is the relation of Public Law 480 to sections 402 and 550 you mentioned?

Mr. White. Section 550, as I stated, was a part of the mutual security program for fiscal 1954; and the section 402 program was a part

of the mutual security program for fiscal 1955 and 1956.

Now, the Public Law 480 program was a separate act enacted by Congress, applicable for the first time in fiscal 1955. Title I of Public Law 480 provided for reimbursement, over a period of 3 years, to Commodity Credit Corporation up to \$750 million for the movement of surplus agricultural commodities for export, for payment in local currencies.

Title II of Public Law 480 authorized up to \$300 million of CCC surplus commodities, over a period of 3 years, for use in meeting famine

and other urgent relief requirements of foreign nations.

There is material in the presentation before you which covers those

sections of that separate act.

I have started the testimony this morning first relating only to the mutual security program, that is, section 402, which for fiscal 1957 suggests \$250 million of the funds authorized be set aside for use for the export of surplus agricultural commodities.

So we have section 550 and section 402 as integral parts of the mutual security legislation; and entirely separate from that we have Public Law 480, which is a separate act aimed directly at moving the surplus agricultural commodities for sale for local currency, and for distribution to needy countries, according to the various titles.

Senator Smith. Then Public Law 480 concerns a sale for local

currencies or a grant for relief?

Mr. WHITE. Title I of 480, Senator Smith, is for sale for local currencies; and title II of Public Law 480 is for the distribution of the surpluses to meet famine requirements and other urgent relief, and a large part of that is a grant or a gift to the-

Senator SMITH. I am still not clear how Public Law 480 differs

from sections 402 and 550 of the Mutual Security Act.

Mr. White. Title I of Public Law 480 and section 402 of the Mutual Security Act are somewhat similar. They differ in this respect: Section 402 of the Mutual Security Act sets aside a fixed amount of fiscal 1956, not less than \$300 million of the funds otherwise appropriated for foreign aid, to be used only to finance the export and sale for local currency of surplus agricultural commodities from the United States. The local currency which becomes the property of the United States, is set aside in a special account and is used to accomplish the purposes of the foreign aid program, that is, generating local currency similar to counterpart.

Senator Smith. It is like counterpart?
Mr. White. That is substantially correct.

Now, Public Law 480 is a program aimed only at moving the surplus, but in such a way as permitting it, under title I, to be sold for local currency, the currency to be deposited and to be used accord-

ing to eight specified ways set forth in Public Law 480.

Some of those ways are for payment of United States expenses overseas; others are for purposes very similar to those embodied in programs carried out under mutual security programs. That is, under Public Law 480, the funds can be used to reimburse the Commodity Credit Corporation, in part; they can be used also to carry out programs of economic development, largely under a loan program.

I can talk more specifically to this, if you like, in presenting the program separately, which I had intended to do in summarizing this

statement.

### USE OF COUNTERPART

Senator SMITH. I am very glad you are going to do that, but I am interested still in this question; under Public Law 480 it is spelled out how the counterpart money, if it is received, shall be disposed of. Under the mutual security program, on the other hand, the counterpart money goes into a pool, and the receiving country and the United States work out together how it is going to be used.

Is that a correct distinction?

Mr. White. That is correct, sir; and we could say the use made of the section 402 proceeds is to achieve the mutual security objectives. It is merely channeling the dollars to the countries in the amounts authorized by the Congress, via the surplus commodity route rather than straight dollar assistance. But the effect on the program is the same.

Now, the Public Law 480 program is an entirely separate program. Under Public Law 480, there is an agreement before the surplus commodities are shipped, a sales agreement. Later there is a loan agreement. In the sales agreement, it is agreed as to how the currency generated from the sale of the surplus commodities in the receiving country will be spent. There are eight uses authorized by law, and those uses are substantially agreed to prior to the beginning of the action on the program. So it is known at the outset the character of the uses; and later, the exact uses, within the category, are decided upon.

Senator Smith. That is agreed to between the United States and the

receiving country?

Mr. White. Between the receiving country and the United States. Senator Smith. Under Public Law 480 we are limited to those eight uses. No further negotiations with the receiving country on use of the counterpart are necessary?

Mr. White. With reference to the character of the uses, that is correct, sir.

Senator Smith. I wanted to get that clear. It has always been con-

fusing to me.

### SHIPMENT UNDER SECTION 402

Mr. White. Continuing the discussion relating to section 402, which first became operative in fiscal 1955, the requirement was to use not less than \$350 million of the funds available for financing surplus agricultural commodities for export to the aid-receiving countries.

Pursuant to that program, ICA was able to use \$467 million, or

\$117 million in excess of the minimum goal.

For fiscal 1956, the current year, the amount under section 402 was

\$300 million as a minimum requirement.

Now this achievement, the achievement of this \$300 million goal, has been more difficult to attain than in previous years, partly because the foreign aid program has largely shifted away from Europe to the undeveloped countries of the world; and since the European countries are largely the food-importing nations and the less developed nations of the world have more of an agricultural economy, their need for surplus agricultural commodities of the types available in the United States is less.

So it has been more difficult to program to the under-developed countries more surplus agricultural commodities than they had heretofore been using, without substantially distorting the achievement of the program objections.

In the submission to the committee, it was stated that up until that time, about the first of March, it was estimated that about \$270 million would be used during the current year under section 402 against the

requirement of \$300 million as a minimum.

However, because of some favorable circumstances partly due to emergency wheat requirements in 2 or 3 of the aid-receiving nations, and to the effort made to stimulate so-called triangular trade in an effort to reach the \$300 million goal established by the Congress, we are now confident that not only will the full \$300 million target be reached, but that it will be substantially exceeded.

For the fiscal 1957 program, it is suggested that the amount be \$250 million, if the 402 program is to be continued, and this amount takes into consideration the composition of the aid to the aid-receiving countries and their capacity to usefully use the agricultural surpluses

available from the United States.

These, Mr. Chairman, conclude my remarks respecting the section 402 program. Before proceeding to discuss other phases of the program, the committee may desire to ask questions relative to this part in order to avoid any confusion between the various parts of the surplus disposal programs.

### FARM BUREAU PROPOSED AMENDMENT

The CHAIRMAN. Mr. White, I believe you saw the letter from Mr. John C. Lynn, legislative director of the American Farm Bureau Federation, in which the Farm Bureau is suggesting an amendment.

I do not know whether you would like to express an opinion about

it, if you have an opinion.

The amendment which he suggested was this: That section 413 of the Mutual Security Act of 1954 be amended as follows:

Notwithstanding this section 413 or any other provisions of law the procurement of supplies, materials and equipment financed with funds authorized to be made available pursuant to this act shall be accomplished by the Director of the International Cooperation Administration in cooperation with the Secretary of Agriculture through barter or exchange of surplus agricultural commodities unless the Director determines in each case that such procurement cannot be accomplished in such a manner.

Is it appropriate for you to discuss that now, if you have any observations you would like to offer us?

Mr. WHITE. Yes, Mr. Chairman.

The CHAIRMAN. This suggestion was submitted by the American Farm Bureau Federation, and as chairman of this committee I stated that we would explore their suggested amendment in connection with our study of the bill.

You may comment on it if you are prepared to do so.

(The letters referred to are as follows:)

MAY 23, 1956.

Mr. John C. Lynn,

American Farm Bureau Federation, Washington, D. C.

DEAR MR. LYNN: Thank you for your letter of April 26, regarding the possibilities of using barter arrangements to trade surplus agricultural commodities for materials which the United States would otherwise have to buy for dollars.

I shall explore this situation with representatives of the executive branch during the hearings of the Foreign Relations Committee on the mutual security program for fiscal 1957.

I appreciate your calling this to my attention.

Sincerely yours.

WALTER F. GEORGE, Chairman.

AMERICAN FARM BUREAU FEDERATION, Washington 4, D. C., April 26, 1956.

Hon. Walter F. George, United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: The American Farm Bureau Federation recognizes the critical problem created by the mounting surpluses of agricultural commodities and has vigorously supported every sound and practicable means of moving these commodities into markets.

We have huge surpluses of agricultural commodities now in storage and there is every likelihood of the surpluses increasing. We understand that it may be necessary to increase the Commodity Credit Corporation borrowing authority to \$15 million in the very near future. It seems to us that an important means of utilizing surplus agricultural commodities has not been fully implemented. We refer specifically to the barter authority which has the potential of changing these surpluses from liabilities to assets.

Since the CCC Charter Act of 1948, the Commodity Credit Corporation has been authorized by Congress to barter surplus agricultural products for materials which the United States would otherwise have to buy for dollars. In the Agricultural Trade Development Act (Public Law 480), Congress directed the Secretary of Agriculture to use "every practicable means" to implement this bartering authority. Congress also directed all United States Government agencies procuring materials to cooperate with the Secretary in this regard.

The record indicates that the full potential of the barter authority has not been utilized. In fiscal 1955 the Department of Agricultural was able to barter approximately \$281.8 million worth of surplus agricultural products. Of this amount, some \$259.4 million was for strategic and critical materials. The International Cooperation Administration, having available and spending billions of dollars during that year, was able to locate only about \$22.4 million worth of materials which could be procured by barter with American farm products.

We understand that the Department of Defense failed to designate a single

procurement as suitable for barter.

In the current fiscal year, as of February 29, 1956, \$130.7 million worth of Commodity Credit Corporation stocks have been used in barter transactions. However, again we see over \$122 million of this used for strategic material and only \$7.8 million worth utilized by ICA for their procurements. For fiscal 1956 under the mutual security program, approximately \$3.3 billion was authorized and some \$2.7 billion was appropriated. Yet, we are advised that of all these materials, implements, and commodities being procured, only \$7.8 million can be acquired through barter. Naturally, it is easier to spend dollars; it requires some effort to use barter, but it helps to solve some of our problems on a sound basis.

It seems apparent to us that the congressional action contained in title III of Public Law 480 has been somewhat disregarded. Our information indicates that the ICA feels that barter should not be used in the procurement of materials for which dollars are available, since some seem to think that a primary function is to "teach other countries how to buy with our money." With \$9 billion worth of agricultural surpluses, it would seem to us important that ICA utilize this bartering authority to a much greater extent.

We therefore recommend that section 413 of the Mutual Security Act of 1954

be amended as follows:

"Notwithstanding this section 413 or any other provisions of law the procurement of supplies, materials, and equipment financed with funds authorized to be made available pursuant to this act shall be accomplished by the Director of the International Cooperation Administration in cooperation with the Secretary of Agriculture through barter or exchange of surplus agricultural commodities unless the Director determines in each case that such procurement cannot be accomplished in such a manner."

We feel that this would be a reasonable implementation of the mandate given by Congress in section 303 of the Agricultural Trade Development Act (Public

Law 480).

A conservative estimate of the materials procured by ICA for which surplus agricultural products might have been used would approximate \$500 million. Certainly, it should be substantially more than the \$7.8 million so far utilized by ICA in fiscal 1956.

The American Farm Bureau Federation will renew these recommendations when we present our testimony before the appropriate committees of Congress.

We respectfully urge your support for this amendment.

Sincerely yours.

JOHN C. LYNN, Legislative Director.

Mr. White. I would like to speak briefly to that proposed amendment.

We are familiar with the Farm Bureau's views regarding the desirability of stimulating so-called barter trade in the procurement of industrial commodities to be used by the aid-receiving countries.

As we understand, what they have in mind would be an arrange-

As we understand, what they have in mind would be an arrangement whereby the dollars appropriated for use in the aid-receiving countries for the purchase of industrial-type commodities would be used, to the greatest extent possible, for the procurement in the United States of surplus agricultural commodities to be shipped to foreign countries and sold, and the local currency generated from those sales used for the purpose of purchasing the industrial commodities in those countries for supply to the aid-receiving countries.

So that instead of issuing a procurement authorization, the obligating document to the aid-receiving country, in dollars and permitting them to purchase their requirements of industrial commodities around the world, including in the United States, at the lowest price, it would be channeled in the manner I have just described, by the shipment of

agricultural commodities overseas.

Since September 1954, we have made a special effort to see what could be done to stimulate the sales of surplus agricultural commodities from the United States without doing serious injury to the purchases of the foreign aid program. Principally, it has been used in connection with the sales of fertilizer. But before that time, when procurement was on a government to government basis a substantial amount of barter business was completed.

### BARTER PROVISIONS IN PROCUREMENT AUTHORIZATIONS

I would like to read a provision contained in a procurement authorization that would be illustrative of provisions that have been carried in procurement authorizations since September 1954 in the amount of about \$85 million. I read from a current procurement authorization to Korea:

Section (e). Barter provision.—In the case of high bids, all other conditions being equal, awards shall be made to bidders having barter agreements with the Commodity Credit Corporation. Bidders having such agreements must state that fact in their bids, and applications for letters of credit must provide that payment for such bidders' accounts will be made directly to the Commodity Credit Corporation.

Now, during this period of time, since September 1954, when private trade in fertilizer began to expand, there have been barter trades under this provision, amounting to about \$48 million, and most of it occurred

in the early months following the adoption of this practice.

It is true that in more recent months, and within the past year, there has been less barter trading under this provision, and while we are not certain as to why it has been less, those companies which earlier did most of the barter business have explained that in earlier years they were able to take payment mostly in bread grains, such as wheat, for the fertilizer delivered in Korea, and to dispose of the grain for export without a loss, allowing them to realize their normal margin of profit in a competitive bidding system on fertilizer.

They have stated that in recent months it has been more difficult to dispose of the grain purchased from Commodity Credit Corporation at the available price for export without a loss. Considering that fertilizer margins of profit are claimed to be fairly narrow, they were not

able to continue their interest in barter trading.

There are probably some technical reasons why it is difficult to do so.

### AMENDMENTS PROPOSED TO MUTUAL SECURITY ACT

The amendment refers to section 413 of Public Law 665, and that reads in part as follows, and this part of the section is what is proposed to be amended:

It is declared to be the policy of the United States to encourage the efforts of other free nations to increase the flow of international trade, to foster private initiative and competition, to discourage monopolistic practices, to improve the technical efficiency of their industry, agriculture, and commerce, and to strengthen free labor unions; and to encourage the contribution of United States enterprise toward the economic strength of other free nations, through private trade and investment abroad, private participation in the programs carried out under this Act (including the use of private trade channels to the maximum extent practicable in carrying out such programs), and the exchange of ideas and technical information on the matters covered by this section.

It is our opinion, Mr. Chairman, that this section of the act has

been a desirable section.

If this part of the act were to be set aside, there would be the tendency to revert to Government procurement, and this would be contrary to what has been considered to be, since the inception of the ECA program in 1948, a desirable practice to foster private trade in the foreign aid-receiving countries and in the United States.

I would like to read a short statement for the record which has a bearing on this proposal. This is a statement prepared in reply to

Mr. Lynn's proposal.

The CHAIRMAN. Yes, sir.

### BARTER OPERATIONS

Mr. White. I would like to say that the figures concerning our operations under section 303 of Public Law 480, which Mr. Lynn quotes, are correct. He has stated that thus far in the present year the barter trade has amounted to \$7.8 million, and in the previous year about \$22 million.

In fiscal 1955, in addition to our section 402 transactions of \$467 million, \$22.4 million of surplus agricultural commodities were disposed of by ICA through barter.

In fiscal 1956 thus far, at least \$7.8 million is being disposed of through barter in addition to a section 402 program of a required mini-

mum of \$300 million.

Unfortunately, however, if there is a decrease in barter in fiscal 1956, it will be because of a decreasing interest shown by barter traders, particularly those offering fertilizer, rather than a lack of opportunity on their part.

It should be pointed out that section 303 of Public Law 480 places

primary implementing authority in the Secretary of Agriculture.

We shall continue, in cooperation with the Department of Agriculture, to do everything feasible to support a barter program where it does not jeopardize mutual security objectives and where we can do the same amount of good.

### CRITICISM OF FARM BUREAU PROPOSAL

I must point out, however, that the text of the Farm Bureau's amendment omits these important qualifications:

The proposal seems to make barter absolutely mandatory except where the Director, ICA, determines in an exceptional case that it

cannot be accomplished.

This would place an impossible handicap on the program and tie it into knots at a time when, if anything, increased flexibility is essential. We could, I am sure, increase barter if we were willing indefinitely to halt our activities and not procure until we find a supplier who offers to take surplus agricultural commodities in payment, no matter how inferior or how high-priced his product may be. Only if we are now willing to retreat from our efforts to encourage private channels of trade and discourage state trading, if we are now willing to jeopardize our section 402 program and to ignore the effect that this amendment would have on our foreign economic policy, if we wish buying or selling to be done by a Government agency, which

would tend to encourage state trading at the expense of commercial transactions; thus we believe it would be quite practical to implement the barter transactions.

This contravenes the present congressional mandate to ICA to pro-

mote private commercial trade to the maximum extent possible.

The question would still remain, however, as to what barter accomplishes that makes the United States willing even to consider it. it, in other words, substantially increase the amount of American surpulses we can dispose of? Nobody really knows that answer.

Experts on this matter are of the view that a large part of barter trade probably displaces normal sales that otherwise would have been

made.

This, Mr. Chairman, concludes my remarks with reference to the barter trade which you have mentioned. The CHAIRMAN. Yes, sir. Thank yo

Thank you very much. Have you fin-

ished your full statement?

Mr. White. I have finished my discussion on section 402. I would like to refer briefly to title II of Public Law 480, since ICA administers that provision of the act.

### AGRICULTURAL COMMODITIES FOR EMERGENCY RELIEF

Under title II of Public Law 480, authorization has been given for the use, over a 3-year period, of up to \$300 million worth of surplus agricultural commodities held by the CCC to meet famine and other urgent relief requirements in friendly foreign areas and to friendly

people.

Under this program the foreign governments generally ask for this assistance. That assistance program is screened by the Embassy and by the mission in the field, and is reviewed in Washington. And, when approved, the surplus agricultural commodities are packaged or handled in such a way as to be clearly identified as gifts of the people of the United States whenever a gift is called for, and that is generally the case.

In some instances the commodities are delivered to recipients against work relief programs, and in a few instances they are sold for cash,

sometimes at discounted prices.

During fiscal 1956, shipment of \$77 million have been authorized under this program thus far; and it is estimated that a total of about

\$95 million will be authorized during this fiscal year.

This would leave about \$95 million to be obligated in fiscal 1957, unless the \$300 million maximum is increased. And a provision for increasing that to \$500 million is contained in the farm bill which has passed the Congress and has been submitted to the President.

The greatest need for commodities under title II is for cereals. proximately two-thirds of the total foods supplied to meet relief re-

quirements have been cereals, such as wheat and rice.

This, Mr. Chairman, concludes my remarks about title II of Public Law 480. And, if there is no questions on that, I would like to pass on to the ocean freight item.

The CHAIRMAN. Yes, sir; you may do so, unless there are some ques-

tions by some of the Senators.

Senator Green. No questions.

### RELATIONSHIP TO SMITH-MUNDT ACT

Senator Fulbright. Under which title is the provision for supplementing funds for the Smith-Mundt Act?

Mr. WHITE. That is Public Law 480, Senator Fulbright, and that

is contained in the presentation, and there is a tabulation—

Senator Fulbright. I do not find anything but a table in the presentation. There is no discussion or comment in this particular document. Do you have anything to do with the allocation of those funds?

Mr. White. Primary administration of Public Law 480, the title I to which you refer, is by the Department of Agriculture, with other departments cooperating—the Department of State, ICA, Department of Defense, Department of the Treasury, Department of Commerce, the Office of Defense Mobilization, and the Bureau of the Budget—so ICA does have a part in that administration.

I explained a few moments ago that sales agreements were negotiated before a program is undertaken, and the use of the local currency

is set out under those agreements.

I would like to call Senator Fulbright's attention to table III in the presentation that was given the committee for the record. Under the last column it sets forth in fiscal 1955 the amounts negotiated to be used for international educational exchange.

Senator Fulbright. Who does the negotiating?

Mr. White. The Department of State has control of the expenditure of these funds, but the sales agreement with the country sets up the pattern, as shown here in this table.

Senator Fulbright. That is made by Agriculture?

Mr. White. The sales agreement, which is drafted by Agriculture, with the Department of State, ICA, the Bureau of the Budget, Treasury, and other agencies cooperating is negotiated by the Department of State.

### USE OF COUNTERPART FOR SMITH-MUNDT ACT PURPOSES

Senator Fulbright. I will ask you one specific question to illustrate that. Take Pakistan. You had substantial sales there. The total amount programed was marked \$29 million. You programed nothing at all for the exchange program, although the local currencies are exhausted this year.

Did you simply abandon that program in that particular country

as being not worth while? Why was it not included?

Mr. WHITE. I can't answer that, Senator Fulbright. The Department of State would be the one that could supply the information. I will be glad to supply it for the record.

Senator Fulbright. Is there anybody here who knows anything

about it?

Mr. WHITE. I don't believe there is, sir.

But I may say that, having sat through the discussions, the Department of State is fairly vigilant in asking for funds for this particular use.

Now, why they have not asked for Pakistan, if such is the case. I

cannot answer.

Senator Fulbright. Turkey, too, is in the same way. Of the \$29 million there, not a penny was for educational exchange, and now the Turkish program has lapsed for lack of funds.

I was wondering whether it is the Agriculture or the State Department that is standing in the way, or is it that nobody is interested in it?

Mr. White. Generally speaking, sir, when the Department of State requests funds for this purpose, because they are small in amount it is not difficult for the committee to agree to what they suggest.

Senator Fulbright. You agree that they have not used a penny in

either of those two countries for educational exchange.

I would consider them important as friends, assuming we wish to keep them as friends. The total amount, of course, is very small, as you noted. The total for 1956 was only \$4.5 million out of a total of \$575 million.

Mr. White. \$575 million during fiscal year 1956, so far, or eight-

tenths of 1 percent.

Senator Fulbright. Eight-tenths of 1 percent. And yet you cannot get any money for that purpose in spite of the fact that the law

very clearly, as you know, authorizes it.

Iwould assume that we could get funds for educational exchange from counterpart generated by the sale of agricultural surpluses without it being a burden on anyone. You give Pakistan nearly \$15 million of these funds for military procurement.

Mr. WHITE. I am sure the Department of State would have a reply to the question as to why they did not request or why there is not here funds specifically mentioned for that purpose. But I am not familiar

enough with that program to answer in more detail on it.

The CHAIRMAN. Can you procure it? Mr. White. I would be glad to procure it.

Senator Fulbright. Would you procure it for the record? Mr. White. Yes, I would be delighted.

(The information referred to is as follows:)

A good many of the sales agreements concluded under Public Law 480 provide that certain amounts of the local currency proceeds may be used for various United States expenditures, including agricultural market development, payment of United States obligations, and international educational exchange (sec. 104 (a) (f) and (h) respectively of the act). This provides for flexibility in the allocation of these funds later, since it is not always known at the time the sales agreements are negotiated exactly how much of these funds may be needed for these various programs. The agreements signed in fiscal year 1955 and 1956 with Turkey lump fund uses together in this way and this is also true of the fiscal year 1956 agreement with Pakistan. The agencies which are responsible for administering the programs, such as the Department of State with reference to the international educational exchange program, may request allocations of these funds from the Bureau of the Budget. An allocation of \$750,000 worth of Turkish lire was made to the Department of State in September 1955 to provide for a 3-year program of student exchange. The Department of State will shortly submit a request for \$1,050,000 of Pakistan rupees to finance a 3-year educational exchange program in that country.

Senator Fulbricht. It is very clear the Agriculture Department is not obstructing it. Can you testify to the fact that the Department of Agriculture did not object to the application of these funds

for this purpose?

Mr. WHITE. I am of the opinion—and I have sat through the sessions on practically all of these countries—that none of the departments oppose the use of the funds, to the extent they are needed and desired, for this particular purpose. And what you have said, I would understand to be correct. Senator Smith. Following up Senator Fulbright's questions, I want to know who showed any interest in the program? You say no one opposed it.

The exchange program has been very much cut down. I am very

much concerned over that.

### USE OF COUNTERPART FROM AGRICULTURAL SALES

Mr. White. Well, under this authority, Senator Smith, there was first provided \$700 million, under title I, for a period of 3 years.

The Congress last year raised that amount to \$1.5 billion. I believe there is a request from the executive branch before the Congress to again raise that amount and, if I am not mistaken, to a total of \$3 billion.

Now, that shows the interest on the part of the executive branch,

I believe, in promoting the usefulness of this program.

Senator SMITH. You mean of the agricultural surplus program? Mr. WHITE. Yes; when it comes to the use that can be made of the sales proceeds, the purchasing country has very definite views on how that country would like to see the sales proceeds used.

Likewise, the American Government has views, as well, as to how the sales proceeds should be used, and it is necessary to come to an agreement. And there is an agreement form called a sales agree-

ment.

Within the Government, each of the agencies that has administration of the activities overseas that could be financed expresses interest in funds for these purposes such as ICA for loans for economic development, for grants for economic development; the Department of Defense in connection with certain housing programs and activities that it undertakes where local currencies would be useful; the Department of State in the item mentioned by Senator Fulbright, and others.

So there is a meeting of minds as to what is desirable, and a draft

agreement is finally decided upon.

That is the procedure that is followed.

I should say that there is not a lack of interest; in fact, there is normally very vigorous interest on the part of the Government agencies desiring to share in the local currencies.

### WHO DECIDES ON USE OF COUNTERPART

Senator Fulbright. I do not believe that, at all. I have not seen a foreign country yet that has not been interested in the educational exchange program, and I do not believe other countries object to it. There is a lack of interest somewhere in this Government.

Do you mean to say that it is the foreign country that refused to

use the counterpart this way and not ours?

Mr. White. No, I was saying, Senator Fulbright, that the foreign country has very definite views on how to spend the local currency, and this Government also has views, and sometimes those views are not the same. It is always necessary to reach an agreement.

Senator Fulbright. I realize that. I have yet to see a foreign country—that is, any ambassador or representative of those countries—that has said they did not wish to participate in the exchange program. Yet, we have used only a minute amount in that fashion.

We had a program in Turkey, and the only reason it lapsed is because we ran out of money. The Turks were interested in it.

Mr. White. As I have stated, I am unable to testify as to why the

student exchange-

Senator Fulbright. That, in itself, is good evidence that nobody is You come here and are not able to testify about this

Mr. White. We try to keep informed, Senator, on a great many things, but we cannot at any one moment be informed, or it is very difficult, at least, to be informed on all of the many items that are in this rather complex legislation.

Senator Fulbright. Is there anybody with you who knows anything about this program? Do any of your assistants know about

it?

Mr. White. I don't believe we have anyone from the Department of State here today, which is administering this program, who could usefully testify, and the most we could do at the moment would be to get a statement and submit it for the record, if that would be helpful.

Senator Fulbright. If you can produce someone who knows anything about the negotiations, I would like to ask them a question. would like to know why they have failed to apply a reasonable amount of these funds for this purpose, especially in those countries where I know there is a lack of funds.

Whoever negotiates these agreements ought to be available for some

Mr. White. Perhaps while I am testifying we can find out, by a telephone call to the appropriate person the answer, and maybe we can supply it that way during this session.

# COUNTRIES HAVING PUBLIC LAW 480 PROGRAMS

But I would like to call attention of the committee to the fact that of all the countries that would be eligible for consideration, only 25 have had programs. I have noted no particular interest in countries such as Belgium, Switzerland, the Netherlands, Denmark, and only partly Germany and the United Kingdom in participating in a program of this kind.

Senator Fulbright. Are you talking about the exchange program? Mr. WHITE. The total program title I of Public Law 480 in which they could participate if they had a program calling for the use of their

own exchange.

Senator Fulbright. In some of those you mentioned, like the United Kingdom, there are plenty of funds available from other sources for educational exchange.

I am only interested in those places where the local currencies have

been exhausted.

Mr. WHITE. Yes, sir. I was for the moment trying to talk on the point of the energy and interest on the part of other countries, and this country, in pursuing 480, the sale of surpluses and the generating of sales proceeds to be used for various purposes.

It is shown here that under title I thus far, agreements have been entered into for \$936 million of surpluses to 25 countries, and the planned uses of the foreign currency sales proceeds are set forth in

30

the paper.

Mr. Chairman, this concludes my remarks with reference to the questions raised by Senator Fulbright. I am prepared to proceed on the ocean freight question, and to get back to his question when I get more information on the subject.

The Chairman. Yes, you may proceed. We are working under a

little pressure of time.

### OCEAN FREIGHT FOR AGRICULTURAL SURPLUSES

Mr. White. You have before you a request for ocean freight, for financing these title II shipments of surplus agricultural commodities, and title III shipments overseas of surplus agricultural commodities by United States voluntary relief agencies and some other nonagricultural commodities that are normally handled by the voluntary relief agencies for shipment overseas.

The request is for a \$14 million appropriation for the purpose. Of that amount, \$2 million is to be used for title II, and \$12 million is to

be used for title III.

I merely wish to call to your attention the fact that since title II of Public Law 480 became effective, in its first year \$12.5 million were used for ocean freight, and it was taken from country programs. That was the only logical place in that year for the money to be found. And the aid-receiving countries put up \$1.6 million, which made a total of \$14.1 million for ocean freight, against which \$109.2 million of surplus agricultural commodities were supplied to meet famine and other urgent relief requirements.

In fiscal 1956, \$3.5 million for ocean freight will be taken from funds made available for that particular purpose, \$5.5 million from funds from country programs, making a total of \$9 million, and the aid-receiving countries will be asked to put up \$4.4 million, making a total of \$13.4 million for ocean freight against the delivery of an estimated \$95 million of surpluses, agricultural commodities, to meet

famine and other urgent relief requirements,

And for fiscal 1957, an appropriation of \$2 million for ocean freight is suggested, \$4 million may possibly be transferred from country programs, making \$6 million, and aid-receiving countries will be asked to put up \$7.4 million. This makes a total of \$13.4 million of ocean freight for fiscal 1957 to finance an estimated delivery of \$95 million of surplus agricultural commodities.

Now, there is contained in the farm bill which is now before the President, an authorization to expand the amount of funds available under title II, and to make the funds available also for the payment

of ocean freight.

While that bill has not been signed, if it does become law we would not require the \$14 million appropriation requested here. But it has

been carried in the authorization, nevertheless.

I would like for Mr. McCahon, who is here, to speak briefly on the request of the remaining amount, \$12 million, to finance ocean freight for shipments of surplus commodities by the voluntary agencies, as well as an additional amount for the ocean freight on the regular nonagricultural programs of the voluntary agencies.

The CHAIRMAN. All right, Mr. McCahon, we will be glad to hear

you, sir.

# STATEMENT OF WILLIAM H. McCAHON, CHIEF, VOLUNTARY FOREIGN AID STAFF, ICA

Mr. McCahon. Mr. Chairman and members of the committee, the item with respect to the movement of surplus commodities by the voluntary agencies is found beginning on page 45 of the overall paper which was submitted earlier by Mr. White.

### OCEAN FREIGHT FOR VOLUNTARY RELIEF SHIPMENTS

This program relates to the use of our surpluses as donations by the Secretary of Agriculture to accredited American private groups for distribution by them, in their regularly developed channels

of relief distribution abroad.

The program, in terms of making available the commodities, is administered by the Secretary of Agriculture. The authority is found in title III of Public Law 480. That provides that accredited agencies may receive as donations, at United States ports, such commodities as the Secretary of Agriculture may determine, on the basis of inventories, are available for this program.

The authority provides that, first, domestic welfare needs in this country must be taken care of, such as the school lunch programs; and thereafter, having sufficient amounts available, they may be donated to American voluntary agencies for distribution to needy per-

sons abroad.

The American voluntary agencies have welcomed this as an additional source of needed foods; and have, in my opinion, made a very useful contribution in carrying forward the program.

The amount which we have estimated as needed during fiscal year 1957 to continue this support is \$12 million. This compares with an actual programing of \$12.5 million in the present fiscal year.

One of the reasons for a reduction is that we have been successful in getting other governments, that is, the receiving governments, to take over this financing. In other words, instead of the expenditure of United States dollars, the receiving governments in some cases are now taking this cost over.

We have firm arrangements on this takeover with the German Government, with the Yugoslav Government, and with Formosa. There are still under negotiation similar arrangements with three

other countries.

So that in the year 1957, while the amount of United States dollars requested remains about the same, the amount we anticipate other governments will provide to support this very useful program increases from \$3.5 million this fiscal year to \$7.2 million expended in fiscal year 1957.

With the committee's consent, I will conclude at that point, and will be glad to answer any questions on this item of surplus move-

ments by voluntary agencies.

### OCEAN FREIGHT ON VOLUNTARY RELIEF

Mr. Chairman, with your permission to complete our presentation on the ocean freight item, I would like to submit a prepared statement on voluntary agency relief shipments.

The CHAIRMAN. Yes, sir, you may submit it to the reporter. Mr. McCahon. Thank you. (The statement referred to is as follows:)

STATEMENT OF WILLIAM H. McCahon, Chief, Voluntary Foreign Aid Staff, International Cooperation Administration

My name is William H. McCahon. I am Chief of the Voluntary Foreign Aid Staff of ICA and serve also as Executive Director, ex officio, of the Advisory Committee on Voluntary Foreign Aid. I have served in this capacity since July 1, 1953, and for 3 years prior to that as Associate Chief. My work in ICA brings me into daily touch with the personnel of the American voluntary agencies. Hence, I have had an opportunity to observe and obtain a personal knowledge of their varied activities abroad. I am convinced that these groups of private citizens are playing an important role in international relations which is of great value to our country. They act on behalf of the American people in extending a helping hand to friendly peoples around the world, who through circumstances beyond their control are desperately in need of assistance. We are again requesting a modest amount of funds to continue support from the Government side in furthering the overseas activities of these American voluntary agencies.

For the next fiscal year, an appropriation of \$1.4 million is being requested which is \$0.6 million less than last year's appropriation. This is occasioned in part, at least, by the fact that one of the principal receiving countries has agreed to take over this financing beginning July 1 next. If the request is approved, the funds will be used to continue ocean freight support for shipments of relief and rehabilitation supplies by approved American nonprofit voluntary agencies engaged in humanitarian activities abroad. Section 409 of the Mutual Security Act of 1954, as amended, defines approved agencies as those registered with the Advisory Committee on Voluntary Foreign Aid, and the American Red Cross. These private agencies are founded on the support received from voluntary donations of the American people both in cash and in kind. It has been conservatively estimated that their combined constituencies comprise 75 percent of the American people. The program is typically American, representing, as it does, a material expression of goodwill by our citizens for their less fortunate friends abroad.

It is estimated that supplies valued at \$28 million will have been shipped and distributed this fiscal year at a cost to the Government of \$2 million. It will be seen, therefore, that in terms of the value of the goods furnished and delivered, the cash outlay on the Government's side is multiplied 14 times. Accordingly, the funds requested for next year would move goods valued at approximately \$20 million. These goods include food, clothing, medical and hospital supplies, school supplies, handtools for trades and agriculture, and other self-help supplies. Many of these goods are donated in kind without any cash contribution to cover delivery costs. Hence, the value to the agencies of ocean-freight support without which the program could not go forward at its present level. The activity is considered of importance since, prompted by the genuine humanitarian impulse of our citizens, it truly represents people to people giving at levels not normally reached in Government to Government-aid programs.

In each case, before expending funds appropriated for this purpose, a formal agreement is entered into between the United States and the receiving government under the terms of which the latter guarantees duty-free entry of these goods and payment of inland transportation costs from the port of entry to the ultimate point of distribution. The American agencies for their part bear the cost of solicitation, processing, warehousing, packaging for export, and transportation to United States ports. Additionally, each agency maintains in the recipient countries United States citizen representatives to supervise distribution and to insure that the supplies reach the persons for whom they are intended. Thus, the program represents a three-way cooperative arrangement between the American voluntary agencies, the United States Government, and the foreign governments, with each contributing materially to its success. All goods are clearly marked to identify their United States origin. These markings bear the United States emblem and the wording "Gift of the American People—Ocean Freight Paid by the United States Government."

These private agencies are carrying on many other activities and services of interest to the United States. For example, they are active in the field of technical cooperation, as well as providing resettlement assistance and services to refugees and other homeless people. During the past 3 fiscal years, they have

also moved substantial quantities of agricultural surplus commodities with the help of funds appropriated by the Congress. A request for funds for that pur-

pose for fiscal year 1957 is being presented as a separate item.

The following 30 agencies are those which are participating in the program during this fiscal year: American Baptist Relief; American Friends of Austrian Children; American Friends Service Committee; American Jewish Joint Distribution Committee; American Mission to Greeks; American ORT Federation; American Red Cross; Assemblies of God—Foreign Service Committee; Brethren Service Commission; Catholic Relief Services-National Catholic Welfare Conference; Church World Service; Congregational Christian Committee; Cooperative for American Remittances to Everywhere (CARE), Inc; Foster Parents' Plan for War Children; Heifer project; International Rescue Committee; Iran Foundation; Little House of Saint Pantaleon; Lutheran World Relief; Mennonite Central Committee; Near East Foundation; Pestalozzi Foundation of America; Refuge des Petits; Rumanian Welfare; Salvation Army; Save the Children Federation; Tolstoy Foundation; Unitarian Service Committee; United Lithuanian Relief Fund of America; and World University Service.

The Chairman. Any questions, Senator Green? Senator Green. May I ask a question or two?

### COUNTRIES TO WHICH OCEAN FREIGHT IS PAID

You have listed 19 countries in the program of voluntary relief

shipments in 1956. I wonder on what basis those are selected.

Mr. McCahon. Those, sir, are selected on the basis that the authority contained in section 409 (d) provides; and we have carried out that, wherever practicable, agreements shall be concluded with the receiving governments for those receiving governments to guarantee that these goods shall be permitted to enter the country duty-free; and, in addition, that government will provide funds to pay the costs of delivery from point of entry to ultimate point of distribution.

The countries listed on page 254 are those with which we have

concluded those agreements.

Senator Green. Why, for instance, are France and Germany in-

cluded in the list, and some other, poorer countries omitted.

Mr. McCahon. Well, as I have said, in the next fiscal year Germany is taking over; and actually, on France we have discontinued the payments on surplus commodities.

Senator Green. Why were they included before?
Mr. McCahon. Well, because we felt up to that time there was need in the country to continue making these payments. These voluntary agencies reported to us they still had substantial numbers of needy persons, refugees, escapees, and folks who had come over and were temporarily living in those countries.

Senator Green. Why are Taiwan and Vietnam on the list, and

What is the distinction?

Mr. McCahon. That is a technical point only, sir. Senator Green. Well, I want these technical points explained. whole list does not mean anything to me. Would you explain the whole list to me?

Mr. McCahon. I meant the omission of this country on this list

is a technical point.

The funding of this program, and the funds that go to these voluntary agencies for their relief shipments to Korea, comes from the Korea program funds, so they do not come under this authority.

Senator Green. In other words, Korea is taken care of elsewhere? Mr. McCahon. Yes, sir. And I might also say these countries listed here do not represent the full list of the countries that are receiving these commodities. These are only the countries where the United States is paying ocean freight. There are 50 countries to which these voluntary agencies are making shipments, either paying the costs themselves or the receiving governments are paying that cost.

As Mr. White has pointed out, an alternate method of financing

is contained in the pending agriculture bill.

### DETERMINATION OF OCEAN FREIGHT PAYMENTS

Senator Green. What is the general rule by which you include some in this list of these 19 countries, and not others who would seem to be equally worthy of help.

For instance, why is Honduras included, and Guatemala and

Haiti are not?

Mr. McCahon. In that instance, sir, the receiving government, of course, has the ultimate decision as to whether they wish to enter into such an agreement. An opportunity to conclude this agreement was made to all Latin American countries. The ones that are listed are the ones with which we have actually concluded agreements, and some are still pending.

Senator Green. I do not understand yet on what basis the distinc-

tion is made.

Mr. McCahon. The distinction is made on the basis of whether the government, the receiving government, wants to enter into such an agreement.

Senator Green. Have you nothing to do with making the de-

cision?

Mr. McCahon. Well, we all play a part in it. The way it works is that where an area is circularized and asked if they are interested in this, and where voluntary agencies have indicated they are interested in working, a message goes to that government through our embassies abroad, saying this is a program that we suggest might be used.

Senator Green. Who made the decision, for instance, which countries are included and which are excluded from the program?

Mr. McCahon. It was a decision that came about as a result of

circumstances.

Senator Green. Who made the decision? That is what I am

asking.

Mr. McCahon. Well, in some cases the receiving governments made it, saying they were not interested, or at least did not take steps to implement an agreement.

Senator Green. Well, did you make up the list, or did somebody

furnish you the list?

Mr. McCahon. This list developed over the years. It began in 1948, and was tied very closely to the Marshall plan program, so that in that beginning phase the agreements concluded were mostly in Europe.

And then, as circumstances in the Far East, such as Korea, and whatnot, developed, those areas were opened up with such agreements.

Senator Green. Well, who takes them off and who puts them on the list?

Mr. McCahon. Well, the Department of State and the International Cooperation Administration, working closely with the voluntary agencies.

Senator Green. To whom should we go to find out who makes up this list; who puts countries on the list, who takes them off the list?

Where should we apply for that information?

Mr. McCahon. The program is principally headed up in ICA in my division, the Division of Voluntary Foreign Aid. In the Department of State, we work with the particular country desks.

Senator Green. Do you take the list from the Department of State? Mr. McCahon. Certainly the Department of State's views and ad-

vice and direction on policy matters is taken, yes, sir.

Senator Green. Who makes the decision that, for instance, Guatemala should be off the list?

Mr. McCahon. No one has made a decision that Guatemala should

be off the list.

Senator Green. Well, it is off the list.

Mr. McCahon. Because no agreement has been concluded with them, with that country.

### NEGOTIATION OF OCEAN FREIGHT AGREEMENTS

Senator Green. Who is responsible for making the agreement? Mr. McCahon. The Department of State, through the Embassies, actually, negotiate these agreements.

Senator Green. You have nothing to do with it?

Mr. McCahon. Yes, sir, we do. We draft the messages that go out, passing on the model agreement that is used in negotiating such agree-

Senator Green. Is the same thing true of Haiti?

Mr. McCahon. Yes, sir. My recollection—I will be glad to check it—is that all countries of Latin and Central America were offered an opportunity to conclude this agreement a year or a year and a half ago.

Senator Green. What did Honduras do to get on the list?

Mr. McCahon. Well, they met and discussed the matter with the Embassy representatives there, and worked out a suitable agreement and signed it, and the Government concluded it, and that was the basis on which it was added to the list.

Senator Green. Do they have to meet certain requirements before

we pay ocean freight?

Mr. McCahon. Yes, indeed; they have to, as I have said, agree to permit the goods to enter their country without duty charge. Additionally, they have to provide, for their part, that funds will be made available to pay the cost of inland transportation of these supplies from the point of entry to the ultimate point of distribution. That is their contribution.

This is, in effect, a three-way cooperative relationship, with the American voluntary agencies providing the wherewithal, the facilities, the personnel; the United States Government paying the ocean freight to the foreign country; and the foreign country, for its part, providing these facilities that I have just mentioned.

Senator Green. Do you make a general offer to all the countries of the world, and those that comply are put on the list, and others that do not comply are not put on the list? Is that the answer?

Mr. McCahon. It is not a question of compliance. It is a question of agreeing to, signing an agreement. Either signing or not signing.

Senator Green. Was that open to all the countries of the world, or

a certain list of countries?

Mr. McCahon. No. sir. All the countries have not been invited.

#### DEVELOPMENT OF OCEAN FREIGHT PROGRAM

Senator Green. How is the list of countries made up which is cir-

Mr. McCahon. Well, it began in 1948 with the Marshall plan, in the European countries; and as other needs in other areas developed, additional countries were added, such as India, Pakistan, Korea, and countries of that type; then Latin America.

Senator Green. Then Korea did not qualify; is that the situation?

Mr. McCahon. Yes, sir, Korea has signed an agreement, and has

qualified.

Senator Green. Is Korea on this list?

Mr. McCahon. No, sir, because the funds that are provided for that, for shipments to that country, come from the Korean aid program funds, and are not a part of this request.

Senator Green. How many other countries are there, similar to

Korea, which received the aid but are not included on this list?

Mr. McCahon. Korea is the only exception, sir, where we are paying the ocean freight.

Senator Green. Would the same be true of the others I mentioned.

Honduras and Gutemala?

Mr. McCahon. I will be glad to check here.

The voluntary agencies are not shipping, according to my records, surplus commodities to either of those areas. We, of course, have to take our cue from the voluntary agencies; if they don't have programs in those countries, then there is no opportunity or no necessity for us to go into the question with one of those countries.

You must have United States citizen representatives of the voluntary agency present in that country, carrying on a program to help

those people. Otherwise, you have no program.

### LIST OF COUNTRIES WITH WHICH AGREEMENTS ARE SIGNED

Senator Green. Who makes up the list finally in the State Depart-

ment?

Mr. McCahon. The list is an automatic list, automatically made up, and a country is added as soon as an agreement is concluded with that country, and it is dropped as soon as they come up and say they are prepared to take over this financing, as in the case of Germany and Yugoslavia for the upcoming year. So it is a fluid list.

Senator Green. The ultimate responsibility for furnishing the list

is not in your office; it is the Department of State?

Mr. McCahon. Well, in terms of keeping track of the countries that the program is operating in, it is certainly in my office, yes, sir.

Senator Green. Yes, but you are informed about it by somebody else ?

Mr. McCahon. We are informed about it by the developments, by the facts, whether or not a country has concluded an agreement which is necessary.

Senator Green. Who decides whether a country has concluded an

agreement or not?

Mr. McCahon. There is no decision on that. It is the facts. They

either have or they have not.

This is an agreement between the Government of the United States and another government, so that immediately when one is signed, the reports are received in the Department of State; and we, of course, are informed, and so are the voluntary agencies.

Senator Green. Then all these 19 countries have signed such agree-

ments?

Mr. McCahon. That is correct.

Senator Green. And no other countries have?

Mr. McCahon. That is correct. With the one exception of Korea, Senator Green.

## OCEAN FREIGHT FOR SURPLUS AGRICULTURAL COMMODITIES AND RELIEF GOODS

Senator Green. There are 22 countries listed as being included in the program of surplus agricultural commodities shipped by voluntary relief agencies.

What determines whether a country is on one list and not on the

other?

Mr. McCahon. The agreements that are concluded with the countries, of course, leave to them the prerogative of what commodities

they wish to receive.

So that the answer to the question which you raise is that the difference in the number of countries merely indicates that some countries have said, "We only want surplus commodities" and have said, for example, "dry milk and butter," and that is all that they are prepared to permit duty-free entry of and pay the inland transportation costs on.

Most of the agreements go across the board, and include all commodities. But we have a few exceptions where they have specifically limited the items to be received.

Senator Green. Who specifically limits them?

Mr. McCahon. The receiving governments. In other words, they do not wish to receive such-and-such a commodity. Some of them

might not want to have clothing, for example.

Senator Green. As I understand it, all these countries are listed, in the first instance, whether they want to accept relief or not. Then those who do want to receive the commodities have to submit to a further test?

Mr. McCahon. No. The list I believe we are talking about is made up when a country has concluded an agreement, and that agreement spells out the items that are included under that agreement.

Senator Green. And they vary?

Mr. McCahon. Yes; they vary.
Senator Green. How many different variations are there, roughly?
Mr. McCahon. It is the exception when they limit the amounts. It is only a few. I would have to check that.

Senator Green. The amount? Is that the only variation? Mr. McCahon. When they limit the item, the commodity. The amounts vary; yes.

Senator Green. Can you give an illustration?

### THE CRITERION IS NEED

Mr. McCahon. Well, the shipments to France, for example, where the needs are not as great, where you don't have now as many needy people, and where the voluntary agencies do not have as large programs, would not be as large as, say, in South Vietnam, where five to six hundred thousand refugees have come down from the north and concentrated in the south, and where these private groups are taking over food in substantial quantities because of the need.

The criteria, sir, in this program is need. The authority under which we operate says that the recipients must be needy persons, and this is given to them free. It is not intended to be in competition with the other segments of the United States surplus disposal program, which provides, as Mr. White has indicated, for sales in some instances.

Senator Green. I asked you why France was included. You say

that France is in nowhere near such need as Vietnam.

Mr. McCahon. That is correct.

Senator Green. What is the extent of the need?
Mr. McCahon. Well, directly after World War II, France was in great need. There were real food shortages.

As the years went by, there has been an improvement there so there

is not as much need.

Now you have a situation in South Vietnam which is somewhat comparable to that in the European countries directly after World War II.

Senator Green. But France and Vietnam are both on the list now. Mr. McCahon. I just chose those two by happenstance. It would

apply to other countries.

It depends on populations, the number of needy persons, the number of people in institutions such as orphanages and old folks' homes, and hospitals. These are the places that this type of voluntary agency relief is going, principally.

Senator Green. I realize that. I was trying to find out who made the decision as to whether they were needy enough to get relief, or

whether they were not.

Senator Humphrey. Mr. McCahon, is that not done by the volun-

tary agency?

Mr. McCahon. Yes, sir. That is one reason why each of the voluntary agencies maintains a United States citizen representative in the country of distribution, so that he is familiar with the circumstances and can certify to the Department of Agriculture and to us that the distribution is actually going to needy persons as provided in the authority.

Senator Humphrey. The needs test is fulfilled by observations of

the voluntary agency?

Mr. McCahon. That is correct; working closely——

### OPERATION OF THE PROGRAM

Senator Humphrey. The participating government makes an agreement with our embassy after consultation with the voluntary agency as to the legitimacy of the program. Is that not correct?

Mr. McCahon. That is correct.

Senator Humphrey. Once the participating government and the embassy have signed the agreement, it is referred to the State Department and referred to you for implementation. Is that correct?

Mr. McCahon. That is correct.

Senator Humphrey. On that basis, the scope of your program is dependent on two factors: (1) whether or not the voluntary agencies have a program in the area and (2) whether or not the Government of the United States, through its embassy, can arrive at an agreement with the participating government as to certain costs; is that correct?

Mr. McCahon. Making certain conditions and making provisions

for the duty-free entry and payment of inland transportation.

Senator Green. France is not included among the participating countries?

Mr. McCahon. No, sir. As I say, France has been—we have terminated the payment of ocean-freight costs to France as of the end of fiscal year 1955.

Senator Green. What other changes were made this year?

Mr. McCahon. Germany, as of March 31 this year, took over the payment of ocean freight on surplus commodity shipments by the voluntary agencies, and as of July 1 they are taking over the whole subsidy, including the relief supplies the voluntary agencies ship, which they get from their own resources, that is, clothing, medicine, and other supplies.

Yugoslavia has agreed to finance this program beginning July 1.

Formosa has done the same.

And there are negotiations now under way in three other countries, looking toward the same arrangements.

Senator Green. That is all. Thank you. Senator Smith. Mr. White, I would like to ask one general question that has troubled me.

Mr. White. Yes, sir.

### COORDINATION OF POLICY ON AGRICULTURAL SURPLUSES WITHIN EXECUTIVE BRANCH

Senator Smith. Naturally, the Department of Agriculture is interested in disposing of just as much of the surpluses as it possibly can. On the other hand, the question is raised in the Department of State: Will that interfere with our international relations because of the objections to dumping any of these surpluses into these countries?

What machinery is used to straighten out those differences which may arise from time to time between the Department of State, the

Department of Agriculture, and the ICA?

Mr. White. We are cooperating in the development of Public Law

480 sales programs.

The President established two committees for the administration of Public Law 480. One is called the Interagency Staff Committee on Agricultural Surplus Disposal. That is the operating committee. And it is that committee which works up the sales agreements and

does all of the operating work in Washington.

When there are problems or disagreements, these matters are placed before a policy committee which was also established by the President, popularly referred to as the Francis committee because Mr. Clarence Francis has been chairman of that committee. He is on the White House staff.

This committee reviews, for policy purposes, all of the problems that

cannot be settled at the operating level.

Now, when the policy committee, chairmaned by Mr. Francis, feels that it cannot come to an agreement, the matter is referred to the Council of Foreign Economic Policy, commonly called the Dodge Council, which is about the highest committee short of a full Cabinet.

And it is in this organized way of committees that policy problems

and other problems are resolved.

ICA sits as a regular member of the operating committee, and also

on the policy committee.

I want to come back to Senator Fulbright's question eventually, before he gets away, but I am prepared to answer your questions now.

## USE OF LOCAL CURRENCY FROM SALE OF AGRICULTURAL SURPLUSES

Senator Fulbright. Do we have testimony here in the record about how the local currency generated by agricultural sales is used and what is involved in the item "Payment of United States obligations," which I notice accounts for 26.1 percent of this counterpart and the other item "Loans for multilateral trade and economic development,"

which accounts for 51 percent?

Mr. White. I think we could supply it, Senator Fulbright. We had prepared, as you of course are aware, for a Mutual Security presentation here. We have included title I, Public Law 480, an entirely separate act from Mutual Security Act because it has a related interest. But I do not have material other than what I have here for the record, on the details regarding the use of these funds. But we can get it, and will be glad to supply it for the record.

## COUNTERPART LOANS TO AMERICAN BUSINESSMEN

Senator Fulbright. Let me tell you what I have in mind.

A businessman tells me that American businessmen in Brazil have been unable to obtain any of these funds on loan for their purposes; that all of the funds that fall under this category are loaned or given to a Brazilian bank, and that bank, in turn, loans it to Brazilian businesses.

Is that accurate, as far as you know?

Mr. White. That is substantially correct. I can testify very briefly on the problem. I am familiar with the existence of it.

I mentioned earlier that there was a sales agreement, and that was

followed by a loan agreement.

There is something in this presentation on how a loan agreement functions. The agreement, of course, is an agreement under this act between the American Government and the foreign government—the Brazilian Government in the case in point.

The Brazilian Government is responsible to the American Government for repaying the loan according to the loan terms. The foreign government channels the loan into its economy through its banks, and all people who desire to participate in obtaining a loan—American nationals in the country as well as nationals of that country—apply to that bank and compete with each other under the same terms for the business.

Now, American businessmen have raised the question of trying to get a better arrangement which would facilitate their business interests. This poses a considerable problem, but a problem in which the

executive branch is very much interested.

The matter has been under discussion in the National Advisory Council on International Monetary and Fiscal problems as to how far it would be appropriate for this country to go, after having sold the commodities to the foreign country, in encouraging them to make loans available to American businessmen through their banking systems on terms which would be different than on loans available to their own nationals.

One thing the United States Government is very much interested in is to see that the government and banks in the foreign country do not discriminate against American businessmen in favor of their own

nationals' business interests.

This matter is continuing under discussion in the committee that I mentioned, and under consideration otherwise in the Government, to see whether or not a more effective or forceful or satisfactory program, from the standpoint of the American businessmen, can be devised.

## HOW LOAN AGREEMENTS UNDER PUBLIC LAW 480 COUNTERPART WORK

Senator Fulbright. Is this local currency turned over to the foreign government or to the foreign bank directly? Is there an agreement that it must come back to us at any particular time?

Mr. White. Yes, sir, there is a loan agreement that is discussed in

this document on pages 26 and 27.

It is paragraph B, which gives the loan terms; and specific mention is made here of Brazil. And paragraph C mentions United States use of loan repayments. And paragraph D mentions the function that the Export-Import Bank exercises in connection with a loan agreement.

The loans are repaid with fixed interest rates, with an interest-free period; and the loan is amortized over a period of years, not exceeding 40 years, and is repayable either in American dollars at 3 percent in-

terest, or in local currency at 4 percent interest.

Senator Humphrey. That is with the exception of Brazil; is it not? Mr. White. There is an exception, a rather complicated exception, in connection with the agreement with Brazil with respect to the exchange rate.

Senator Humphrey. That is right.

It is less realistic, as a matter of fact; is it not?

Mr. WHITE. I cannot testify technically on that point, Senator

Humphrey.

Senator Fulbright. If I understand it correctly, then, this money is repaid at a certain period to the United States, which is then in a position to negotiate further about its use; is that correct?

Mr. White. It is returned to the United States. I can not be sure as to the use to which the money can legally be put after it is returned to the United States, as to how it is covered into the receipts of the Treasury, or whether it actually is or not.

## PAYMENT OF UNITED STATES GOVERNMENT EXPENSES WITH COUNTERPART

Senator Fulbright. One other question, then: Does the term "payment of United States obligations," mean the discharge of our ordinary expenditures in a country, such as paying the local servants of an embassy, or paying the upkeep of a golf course for the local military establishment?

Mr. White. It can mean, according to the negotiated arrangement with a country, those expenses to which we are committed for dollar

payments.

Senator Fulbright. I thought this was local currency.

Mr. WHITE. Well, we would otherwise be paying with United States dollars, that is, rent on embassy buildings, or expenses for

which there are funds appropriated, fixed expenses.

Senator Fulbright. But these expenses are dischargeable in foreign currency. You mean normally we would exchange our dollars for local currencies. In this case we can use them for that purpose?

Mr. WHITE. That is right.

Senator Fulbright. Can you supply the committee with some details on how that counterpart is used? I would like to know for what purpose it is used. I would like to see some specific examples of what is done with that money.

Mr. White. We can do that, and I would be delighted to.

(The information referred to is as follows:)

By Executive order, the Bureau of the Budget is responsible for allocating foreign currencies accruing from the sale of United States surplus agricultural commodities under Public Law 480 as amended for each of the purposes described in section 104 of the act. All allocations of currency must be consistent with the provisions of the sales agreement. Most of the allocations made so far under section 104 (f) to pay United States obligations abroad, have been allocated to the Treasury Department for sale to various agencies on behalf of the Commodity Credit Corporation, i. e., the dollars appropriated for the specific purpose are paid over to the Commodity Credit Corporation in return for the foreign currency. Some of the funds are available for sale to agencies generally, while others must be sold to a specific agency. According to Treasury Department regulations, United States disbursing and military finance officers must purchase out of their dollar appropriations foreign currencies from the holdings of the United States Treasury if they are available for the purposes for which they are needed. For instance, Public Law 480 currencies available generally under section 104 (f) must be purchased (charging applicable dollar appropriations) by the Department of State to defray United States Embassy expenses, by the Department of Defense to pay foreign administrative expenses, or by any other agency which may incur expenses in foreign countries.

Allocation of section 104 (f) funds which provide for sale to specific agencies have included the equivalent of \$3 million in Argentine pesos sold to the General Services Administration for purchase of tungsten. Almost \$1 million in Australian schillings were allocated to the Department of the Navy for purchase of aluminum powder. About \$5,000 worth of Spanish pesetas will be used to finance costs of a preliminary planning survey in connection with construction of military dependents' housing. Under the special arrangement provided by section 507, Public Law 161 (84th Cong.) approved in July 1955, repayment

of this amount may be spread over a period of years.

A relatively small amount of these currencies has been allocated to the Department of State to cover all expenses of congressional travel. According

to section 502 (b) of Public Law 665, 83d Congress, approved August 1954, no

dollar reimbursement is required for these funds.

On the basis of sales agreements concluded thus far which provide for Public Law 480 loans, it is estimated that repayments will average the equivalent of \$26 million annually, mostly, in local currency. To the extent these currencies are used to pay local currency expenses of the United States, the amounts collected will fall short of the estimated \$127 million worth of local currency which will be used by the United States during the current year. It may be expected that similar expenditures in fiscal year 1959 and subsequent years until the loans are paid will be at least as great. Furthermore, the sales concluded thus far will provide more local currency than may be required in certain countries, and not enough in others.

Since no payments will be due on these loans until fiscal year 1959, however, it is too early to submit a definitive statement on this point. As repayments accumulate and some experience is gained, it will be possible to foresee operations

more clearly in this respect.

The CHAIRMAN. Any further questions?

#### SURPLUSES DISPOSED OF BY VOLUNTARY AGENCIES

Senator Humphrey. Mr. Chairman, may I just ask about this chart, "ICA disposal of surplus agricultural commodities"? Does this relate to the relief program, primarily, or is this total of \$1,383 billion the sales program?

Mr. WHITE. Yes, sir. That is the ICA disposal programs of surplus agricultural commodities. This is by commodities, for the fiscal years 1954, 1955, and 1956 through March 31, 1956, and it gives an

amount for cotton-

Senator Humphrey. Yes, but is the total all donations by volun-

tary agencies?

Mr. White. No, sir, it is not if you refer to the voluntary agencies. The one that involves the donations to the voluntary agencies is the other chart, the one having a total of \$1,519 million, where it has the donations shown as a \$250 million segment. And also on that chart it shows the 402 program, the title II program, and the title I program, separately; and this is for the fiscal year 1956, obligations through March 31.

Senator Humphrey. Under Public Law 480, you have a disposal program which is not administered through ICA. Under the Mutual

Security Act, section 402, you have ICA responsibility in part.

Mr. WHITE. Yes.

Senator Humphrey. ICA can donate for relief purposes; is that correct?

Mr. White. Yes, under title II of Public Law 480. That is shown in this chart that totals \$1,519 million. ICA can supply agricultural commodities, as I have earlier testified, to meet famine and other urgent relief requirements. And under title III, the commodities are available and where appropriate ocean freight is paid.

Senator Humphrey. That is through the voluntary agencies?

Mr. White. Through the voluntary agencies; right.

## ADMINISTRATION OF SURPLUS DISPOSAL PROGRAMS

Senator Humphrey. But when you speak about sales contracts, you refer to title I, of Public Law 480 which is administered by the Department of Agriculture?

Mr. White. Yes. In which the Secretary of Agriculture has senior responsibility, which I pointed out a while ago, by presidential order; other governmental departments have ancillary responsibilities.

Senator HUMPHREY. I want to say I asked this question because I think this chart entitled "ICA Disposal of Surplus Agricultural Commodities, Total Fiscal Year 1954, 1955, 1956," is somewhat misleading. I think we have to ask ourselves, are the figures for title I, title II, title III of Public Law 480, or do they include only section 402 under mutual security?

I think that chart needs to be clarified. It is not clear to me.

Mr. White. I would be delighted to speak to the people who prepared the charts for ICA. I assumed they had taken it for granted that it was abundantly clear, as to who administered these several titles.

Senator HUMPHREY. You see, when I am in the Committee on Agriculture and Forestry I do not think ICA is involved in this program except in a minor way. We hold the Department of Agriculture responsible for sales agreements.

We appoint agricultural attachés who work through the Department of Agriculture, not in the State Department, and we can hold

them responsible.

Now I come to the Foreign Relations Committee, and I see under ICA, there is also disposal of surplus agricultural commodities. I want to know whether we gave these away, or whether we sold them.

Mr. White. This, sir, does not say ICA 1956 surplus disposal program. This is merely a presentation, for anyone who wanted to see. of all the surplus disposal programs, that is, the principal ones, the

relative proportions of each.

There is one chart—these are submitted just for information purposes—headed "Fiscal Year 1956 Surplus Agricultural Disposal Programs." The purpose of this was to show the relation between the ICA totals of \$345 million which is mentioned there, and the total of \$1,174 million by the Department of Agriculture, so as to give a setting for the picture.

Senator HUMPHREY. That is Public Law 480 as well as Mutual

Security Act, section 402.

Mr. WHITE. Yes, sir.

Senator Humphrey. Now, the chart I referred to is the one which shows "ICA disposal of surplus agricultural commodities" for the 3 fiscal years 1954, 1955, and 1956. My question to you is: Is this a computation of the aggregate totals of the 3 fiscal years for donations?

I gather it is, but it just does not say.

Mr. White. I testified a moment ago that I did not think it included that. As I understand it, Senator, it is only sections 402 and 550 programs, title II, Public Law 480 grants plus an amount financed with other regular appropriated foreign aid funds, and this chart includes the ocean freight added to it.

## ICA SALES OF AGRICULTURAL COMMODITIES

Senator Humphrey. Then you exclude, apparently, from here, since you say this chart is sales, you exclude the donations.

Mr. WHITE. Yes, sir; except for title II. This is 402, as it is labeled,

and section 550, and the other as I have just explained.

Senator Humphrey. I only want the information because I did not

know ICA was engaged in such sales.

Mr. White ICA is engaged in financing sales, as I explained a while ago, sometimes sales may be authorized under title II of 480. When it is not a gift, it may be sold by the recipient country to its nationals and at depreciated prices; and under section 402 it is all sales for local currency, the currency is deposited in a special United States account and is used to accomplish the same purposes for which funds originally were appropriated in the foreign aid program.

Senator Humphrey. Yes.

## AGRICULTURAL COMMODITIES FOR INDIA

In reference to the India program, word has reached me—it may not be factual, but I wanted just to pass it on to you—that the Department of Agriculture has a tentative agreement with India on her next 5-year development program, for a substantial amount of food and fiber, from United States supplies, in the sum of approximately \$350 million, including wheat and cotton, in particular.

The same reporter tells me that this agreement is being held up,

apparently at the State Department.

Just as background, may I say when Mr. Cooper, our Ambassador to India, was here, he told us informally that if India proceeds with the great industrial development program planned for the next 5 years, it is going to mean a substantial amount of rupees in the hands of Indian workers. At the same time there is little or no possibility of expansion of Indian food supplies. Therefore, the possibilities of inflation or inflationary prices on food supplies are very real, unless their food stocks can be supplemented at the same time that the additional workers on these projects are receiving their weekly pay checks.

Mr. Cooper made a very deep impression on me with the logic of this program, namely, that we buttress the available stocks of food supplies during the period of industrial expansion so as not to permit the price of available food supplies to skyrocket while additional

workers are being employed.

Therefore, what he recommended was that we make available to the Indian market substantial quantities of our surpluses of food and fiber under the current authorizations, and thereby stabilize the food and fiber prices in India, and prevent inflation during their 5-year plan.

Are you familiar with this project?

Mr. White. I am familiar with the effort that is being made to try to work out a satisfactory program under title I, 480, with India, a large program of the kind that you mention.

## PROBLEMS IN PROPOSED INDIAN PROGRAM

There are a number of problems in connection with working out the program and, as far as I know, there is no opposition to the program as such.

There is a problem with respect to prices that are chargeable under Public Law 480, and the price level of the same commodity in India. In some important cases the price is lower in India.

Senator Humphrey. The world price is lower?

Mr. White. Their domestic price. The price of wheat from Australia, for example, which helps determine their price level; that wheat is available for sale at a lower price than wheat available from

this country shipped to India.

There is also the problem of being sure that there is a firm program in India on economic development projects of a scope that it can be estimated would require increased amounts of agricultural commodities, so that when they are shipped to the country, they will not displace normal trade with the United States or with the other parts of the free world.

Now, to my knowledge, so far as I know, the tentative program is progressing about as satisfactorily as most departments expect. It is not possible in any of these cases to rush in fast and develop a firm program; but if the program is being unduly held back, I personally am not aware of it and I don't know of other people who share that view.

#### INDIAN PROGRAM URGED

Senator Humphrey. Well, there are several members of the Committee on Agriculture and Forestry who share my view, may I say. Since I am a member of this committee and of the Committee on Agriculture and Forestry, a group of my colleagues came to me yesterday in no friendly mood, may I say, and asked me to explore this in this committee. From what we understand, the Agriculture Department has come to agreements tentative in the sense that they have to be approved by the State Department, on the shipment of cotton and wheat.

I have forgotten the exact figures, but I think that it involves a very substantial amount of cotton and wheat, both of which we have in abundance. But there is presently no action at the Department of State for the approval of these negotiations.

For 4 solid months, all I have heard in the Committee on Agriculture are the problems of surplus disposal and surpluses and I am

angry.

So that when I hear an Ambassador in this committee, and twice privately as a member of the Committee on Agriculture and Forestry, telling me the urgency of the completion of these negotiations, and of the industrial developmental plan of India, I want to see some results.

I am tired of reading in the press about these burdensome surpluses.

## TURKEY'S NEED FOR FOOD

When I left my office just now, I was detained by a Parliament member from Turkey, a friend of this country, who has been here for 2 months. He tells me that Turkey suffered a drought particularly as related to wheat. She had previously produced 6 million tons of wheat per year, and got her production up to about 14 million tons. The drought put it back to about 6 or 7 million tons.

They did get some help from the United States, but they are still in need of further assistance, particularly if they continue their indus-

trial expansion program.

## PROBLEM OF SURPLUSES

I just want to say again that I cannot see why these surpluses are so difficult.

And I cannot understand why this Government cannot figure out what to do with these commodities. We are paying a million dollars a day storage, we are constantly reminded.

I want some action.

Mr. White. I cannot answer for the Department of State. I can only say what my impression is—I have sat through meetings as recently as this week in which the Department of State expressed a favorable attitude on the question of India, the program you referred to.

Mr. Humphrey. I want to see the commodities used, and I think I speak for every member of the Committee on Agriculture and Forestry, and there are 15 of us. We on the Committee on Agriculture and Forestry are concerned about the delay in the negotiations.

I know that Senator Eastland, whom I have talked to about the cotton disposal program, is terribly concerned about this, and he told me I was at liberty to say so. He wants to know what the delay is all about, and I want to know, too.

I am friendly to the program. Mr. White. I quite understand.

Of course, I know you are aware, Senator Humphrey, there are a number of problems when it comes to moving the surpluses under Public Law 480. It requires that it not displace United States normal trade, that it not unduly disrupt world prices and that in the case of India it would be over and above their usual consumption.

In lots of cases, the people do not have the purchasing power in their pockets to buy the added amount. It is true they are hungry, in part; certainly they are malnourished. But to have the local currency

to pay for it is another matter.

It is also the case that in these matters, the governments generally do not have the funds to subsidize prices or practically to put the commodities into consumption for free.

Senator Humphrey. I understand that.

Mr. White. There are certain conditions prevailing which make the program go slowly, notwithstanding the energy put behind it. I can assure you our own organization is mindful of the inertia inherent in the program. I have testified today how we have tried to meet all the minimum requirements set up, and to exceed them when we could, in our efforts to get rid of the surplus commodities, which we realize as a real problem for the Department of Agriculture.

## PROPOSED INDIAN PROGRAM

Senator Humphrey. I know you are more familiar with the Indian program than I am, but the information has reached me that the local currency from the agricultural sales will be made available to the industrial expansion program under their 5-year plan. An additional 8 million workers will be getting rupees and, thereby, competing for a static supply of food and fiber. How are we going to augment that supply of food and fiber so that inflationary pressures do not send prices sky high and make greater problems than you had before?

Mr. White. Furthermore, Senator, the 480 currency is local currency.

Senator Humphrey. I understand.

Mr. White. And they have to undertake projects largely of a

nature where local currency can be used.

A lot of times it is land development and irrigation; it may involve increased grain production, cotton production, and other things which this country has surpluses of, so there has to be care exercised in trying to get the funds used so as to promote economic development in India without hindering the American economy in its export market for surplus products.

Senator Humphrey. If we sold these agricultural commodities under Public Law 480, then we could loan the local currency from the

sales to the Indian Government.

Mr. White. Yes, a substantial part of it.

Senator HUMPHREY. That was the theory behind it. Under Public Law 480, the price problem, may I say most respectfully, is not a serious problem, because you have almost unlimited authority to adjust prices as long as you do not unduly upset the market price.

Mr. WHITE. That is correct, and it is understood that way in the

committee we participate in.

The CHAIRMAN. Gentlemen, we have another witness.

Senator Humphrey. I will finish, Mr. Chairman.

Some of us feel that the State Department has been overly concerned about these words "unduly disrupting the market."

Mr. WHITE. Yes, sir. They are not here this morning but I under-

stand---

Senator Humphrey. ICA handles this for State, I understand.

Mr. White. No, sir. Other parts of the Department of State handle the policy part themselves.

Senator Humphrey. You could be a good advocate.

Mr. White. I certainly will relay your views to my associates who handle the work that you are speaking about.

Mr. Chairman, could I come back to Senator Fulbright's question?

The CHAIRMAN. Yes.

## USE OF COUNTERPART FOR EDUCATIONAL EXCHANGE

Mr. White. I would like to ask Mr. Howe, who is here from ICA, and who has obtained some information, I believe, to comment on the

question you asked, Senator Fulbright.

And while he is coming up to the table to speak, I would like to say that I should have mentioned a while ago that there is opportunity in these programs, and it is sometimes exercised, to lump the funds together and later to agree as to the breakdown of the particular uses.

That is, when it is not clearly foreseen by either our country or the other country, or in case they do not want to go ahead at this time and be specific on the amount, it is put together in a kind of group of uses

that can later be agreed to.

Now, I cannot speak on this particularly for the two countries you have mentioned, but that is embodied in our question, and I think maybe Mr. Howe can speak on this point.

The CHAIRMAN. Very well.

Mr. Howe. Mr. Chairman, I have been in communication with a member of the State Department who is actually here, if there are any further questions. The facts are very simple: On page 23 of the statement, Senator Fulbright, you notice footnote 1:

Amounts shown under 104 (f) may include sums which may be distributed over a number of United States uses.

In the case of Pakistan, that amount, \$3.4 million, under 104 (f), which is the third column from the right actually does include \$1,050,000 for 104 (h) purposes.

Senator Fulbright. Why isn't that set out separately?

Mr. Howe. Because in the argeement with the country, for reasons, perhaps, of flexibility, it has been decided to separate out all currencies for 104 (f) and (h) and lump them together as United States uses as distinct from uses for the foreign country.

Senator Fulbright. Is that true for other countries, or is Pakistan

a unique case?

Mr. Howe. I have found the answer in these two cases, Pakistan and

Turkey.

In the case of Turkey, the \$2 million which you see there contains \$750,000 which is for a 3-year program of \$250,000 each year and in the case of Pakistan it is for a 3-year program of \$350,000 each year.

Senator Fulbright. Is there anything in there for Indonesia? Would you have any objection to a minimum amount being used for

this purpose?

Mr. Howe. If I may, Mr. Chairman, could Mr. Russell Riley, the Director of the International Educational Exchange Service answer that?

Senator Fulbright. Before you go, who handles the negotiation? Who is the representative who has the responsibility for allocating these local currency funds for educational exchanges?

Mr. Howe. The Ambassador—

Mr. White. In the sales agreements, Senator Fulbright, a tentative draft is prepared here in Washington, and the various agencies represented in the use of this money put out, in a cable form, to the Ambassador a suggested program.

The Ambassador is free, in his discussions with the country and as he sees the situation, to suggest alterations to meet stated objectives.

Senator Fulbright. Is Mr. Riley prepared to answer 1 or 2 questions on this?

Mr. WHITE. If you will come up to the table, Mr. Riley.

Senator Fulbright. Mr. Riley, have you made suggestions and recommendations on the allocation of funds under this law? Who does that for the State Department?

# STATEMENT OF RUSSELL L. RILEY, DIRECTOR, INTERNATIONAL EDUCATIONAL EXCHANGE SERVICE, DEPARTMENT OF STATE

Mr. RILEY. I would like to identify myself. I am Russell L. Riley, Director, International Educational Exchange Service in the Department of State.

We make our representations to the finance people in the State Department as to what our needs will be, when we find that funds may

become available under these Public Law 480 agreements.

Our office is not in on the actual negotiations. We are represented

by the finance people in the Department of State.

Senator Fulbright. Can you tell the committee whether or not you have been granted the requests or recommendations that you have made?

Mr. RILEY. Well, in some instances they are granted in full; and in other instances, of course, because of urgent needs in other parts for other uses, we don't get all that we request.

I think this is probably true of a good many of the claimants.

Senator Fulbright. Can you supply the committee with a list of the requests that you made for these funds?

Mr. Riley. Yes, sir.

Senator Fulbright. Do you have it here?

Mr. RILEY. I don't have it presently.

Senator Fulbright. Will you supply what you requested, and what you received?

Mr. RILEY. Yes, sir, I will.

Senator Fulbright. I would like to have that as detailed as possible, both this year and last year, if you can.

Mr. Riley. I will get it as completely as possible. I will get a

complete picture on it, yes sir.

(The information referred to is as follows:)

Department of State, International Educational Exchange Service-Public Law 480 funds for educational exchange

	Amounts requested and allocated during fiscal year 1956				Program planned under allocation			
	Requested	Annual rate	Number of years planned	Allocated	Fiscal year 1956	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959
American Republics: Argentina Brazil 1 Chile	\$300,000 900,000 2 300,000	\$100,000 180,000 100,000	3 5 3	\$300, 000 348, 805 300, 000	\$75,000	\$100,000	\$100,000 180,000	\$100,000 168,805
Colombia Ecuador Peru	600, 000 300, 000 300, 000	200, 000 100, 000 100, 000	3 3 3	300, 000 300, 000 300, 000		100, 000 100, 000 100, 000	100, 000 100, 000 100, 000	100, 000 100, 000 100, 000
Subtotal	2, 700, 000			1, 848, 805	75, 000	625, 000	580,000	568, 805
Europe: Finland. Portugal <sup>1</sup> Spain.	250, 000 500, 000 600, 000	250, 000 200, 000 200, 000	1 3 3	250, 000 (°) 600, 000			250, 000 200, 000	200, 000
Subtotal	1, 350, 000			850,000		200, 000	450, 000	200, 000
Far East: Japan <sup>1</sup> Korea <sup>1</sup> Thailand	750, 000 1, 200, 000 600, 000	750, 000 400, 000 200, 000	1 3 3	(4) (3) 400,000		200,000	200,000	
Subtotal	2, 550, 000	••		400,000		200,000	200,000	

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Near East and Africa: Egypt <sup>1</sup> India <sup>1</sup> . Pakistan <sup>1</sup> . Turkey	750,000 61,200,000 1,050,000 1,250,000	250, 000 400, 000 350, 000 250, 000	3 3 3 5	(3) (8) (3) 750, 000		250,000	250,000	250, 000
Subtotal	4, 250, 000			750, 000 3, 848, 805	75, 000	250, 000 1, 275, 000	250,000	250, 000 1, 018, 805

1 No programs were planned using Public Law 480 funds at the time the budget was presented to Congress.

<sup>2</sup> Since presenting these figures in the congressional budget submission for fiscal year 1957 it has been determined that inflation in Chile and the urgent demand by our Embassy in Santiago for a larger program indicate that more money should be requested and allocated for fiscal year 1957. Consequently, the Department has requested an allocation by the Bureau of the Budget of an additional \$433,134. This additional amount plus the balance of \$225,000 previously allocated, or a total of \$658,134 will all be spent in fiscal year 1957. This total amount, in view of the inflation, will provide the equivalent of a \$265,000, dollar equivalent, level of program in fiscal year 1957.

<sup>3</sup> Pending departmental concurrence.

4 Pending approval of Bureau of the Budget.

5 Public Law 480 being negotiated.

6 Currently using funds generated by the sale of surplus property. Public Law 480 funds will be utilized when others are exhausted.

Note.—In addition to these executive agreements under the Fulbright Act, there are in operation the following Fulbright programs using foreign currencies from other sources which are subject to annual appropriations. Australia, \$500,000; Austria, \$250,000; Belgium-Luxembourg, \$150,000, Burma, \$200,000; Ceylon, \$144,020; Denmark, \$114,230; Finland, \$250,000; France, \$1,000,000; Germany, \$1,000,000, Greec, \$320,848; India, \$400,000; Iraq, \$140,000; Israel, \$50,000, Italy, \$1,000,000, Japan, \$1,000,000; Netherlands, \$250,000; New Zealand, \$115,000; Norway, \$250,000; Pakistan, \$160,000; Philippines \$200,000: Thailand, \$125,000; and United Kingdom, \$900,000.

PROCEDURE FOR REQUESTING ALLOCATION OF FOREIGN CURRENCIES TO CONDUCT EXCHANGE OF PERSONS PROGRAMS

Upon receipt of information in the International Educational Exchange Service relative to proposal for Public Law 480 Title I, programs with various foreign countries, planned program, to be financed from foreign currencies generated under the proposed agreement, is drawn up by this Service and the Interagency Staff Committee (ISC) on agricultural surplus disposals is informed of our requirements for foreign currency to carry out the planned program. This committee includes representatives of Agriculture, State, ICA, Treasury, Defense, Commerce, and Bureau of the Budget. This committee under the chairmanship of an Agriculture Department representative considers and approves sales agreements for negotiation and associated instruction to United States field missions. The proposed sales agreements include both the magnitude and terms of the proposed sales of United States surplus agricultural commodities and the division of local currency proceeds among the various categories of uses authorized by section 104, Public Law 480. The negotiating instructions for Title I, sales agreements are transmitted to the field through Department of State channels, except for a few agreements which are made in Washington. When negotiations are concluded and the agreement is signed, this Service takes the necessary action within the Department to obtain concurrence of the planned educational exchange program. Upon receipt of this concurrence a letter is prepared to the Bureau of the Budget requesting an allocation of foreign currencies generated under the sales agreement to carry out the planned program. When an allocation is approved a rough draft of an executive agreement under the Fulbright Act is prepared and furnished to the mission. The mission is requested to study the draft agreement and if the Ambassador proposes any changes to the draft, he will forward same to the Department for consideration prior to entering into negotiations with the foreign government. After the Ambassador's proposed changes have been agreed by the Department, the mission is authorized to enter into negotiations with the foreign government. When final draft of agreement has been informally agreed by the foreign government the mission is instructed to forward the texts of the agreement to the Department for approval and authorization to sign.

## TIME LIMITATION OF AGREEMENTS

In accordance with Public Law 584, 79th Congress, executive agreements or agreements with any foreign government for use of foreign currencies shall not provide for an aggregate amount of such currencies in excess of \$20 million or for the expenditure of the currency in excess of \$1 million annually. In the case of a \$1 million program it could, subject to the availability of funds, be carried out for a period of 20 years. Agreement or agreements providing for the use of an aggregate amount of currency less than \$1 million, subject to the availability of funds, could be carried out for a period of more than 20 years, i. e., a \$500,000 program could be carried out for a period of 40 years if sufficient funds were available.

Senator Fulbright. You could use more local currencies for these programs; could you not?

Mr. Riley. Yes, in many instances we could. Senator Fulbright. Was your recommendation for the appropriation carried in this fiscal 1957 budget; was it recommended by the Budget Bureau, or not?

Mr. Riley. If I recall correctly—and if you will forgive me for not having the facts, because I was caught in midair and didn't bring any records from my office at all—in fiscal 1957 we have planned on six new programs with the use of Public Law 480 funds.

They show in our budget, but they are not, of course, budgeted for. They don't have to be appropriated each year. I think—I can't give you the list of those, but I will put all of that in the record.

Senator Fulbright. I also would like to ask you to supply for our

record an outline of what you would do with these funds if they had been granted to you in accordance with your budget request. This will be for the guidance of the committee. Mr. RILEY. Yes, sir.

Senator Fulbright. The Advisory Commission on Educational Exchange, as I recall, recommended in the State Department budget \$31 million for this purpose.

Mr. RILEY. That is correct.

Senator Fulbright. I would like, for our record, a copy of the Advisory Commission's recommendations on this subject.

Mr. RILEY. Yes, sir; I will furnish that. (The information referred to is as follows:)

THE UNITED STATES ADVISORY COMMISSION ON EDUCATIONAL EXCHANGE,

December 7, 1955.

Hon. John Foster Dulles,

Secretary of State.

MY DEAR MR. SECRETARY: The United States Advisory Commission on Educational Exchange submits the enclosed statement in fulfilling its responsibilities under Public Law 402. This statement sets forth the recommendations of the Commission concerning a proposed expansion of the international educational exchange program.

Sincerely,

R. H. FITZGERALD, Chairman.

RECOMMENDATION OF THE UNITED STATES ADVISORY COMMISSION ON EDUCATIONAL EXCHANGE CONCERNING THE EXPANSION OF THE INTERNATIONAL EDUCATIONAL EXCHANGE PROGRAM

The United States Advisory Commission on Educational Exchange has been given detailed information by the Department regarding the negotiations on East-West contacts at the Geneva Conference. In the light of this report and other information, it is evident that the Soviets have not changed their major strategy but are practicing deliberate fraud as shown through their refusal to negotiate on major issues at Geneva. This continued attitude on the part of the U. S. S. R. increases the challenge to the United States to cooperate in the free interchange of persons and ideas between all peoples. Therefore, the Commission believes it imperative to increase our own cultural exchange activities.

The Commission has been advised that the Department is preparing to request only \$20 million for the international educational exchange program for fiscal year 1957. The Commission recommends to the Secretary that the Department's exchange program be intensified substantially. Such action will impress free peoples everywhere of our sincerity in the belief that person-to-person contacts on a cooperative basis are essential to a durable peace.

Only such leadership by our Government will further inspire the countless organizations and institutions, both here and abroad, who are now engaged in international educational exchange to expand their own private projects in this

great endeavor of creating mutual understanding.

Preliminary estimates made by the Department, at the request of the Commission, indicate that approximately \$31 million are needed and could be spent advantageously to augment this program with the free world. The Commission strongly recommends that the Secretary discuss with the Director of the Bureau of the Budget as soon as feasible the immediate and urgent necessity of increasing the Department's ceiling by at least \$11 million in order that a request for \$31 million may be presented by the President to the Congress for international educational exchange activities for fiscal year 1957.

Senator Fulbright. I believe that is all.

Senator Humphrey. Can these funds be used for the teenager pro-

gram, Mr. Riley?

Mr. Riley. They can be used for international travel, Senator Humphrey. The answer is that they can be used. It is a matter of policy with the Board of Foreign Scholarships and the Bi-National Foundation in the country, with limited funds available, whether or not some will be allocated to the teenager program. They can be used; yes, sir.

#### TRUST FUND FOR EDUCATIONAL EXCHANGE PROGRAM

Senator Fulbright. Let's assume that there has been a large sale of agricultural surpluses in a country like Brazil, resulting in a large amount of local currency. Is there anything in the law to prevent your creating, by agreement, a trust fund to provide, for example, for a 5-year program in Brazil?

Mr. RILEY. No, sir; there isn't.

Senator Fulbright. If the money were available, you could do that under existing legislation?

Mr. Riley. The money can be set aside for an unlimited period, yes;

it can.

Senator Fulbright. Not unlimited; for 20 years, under the law, from the time of passage. There are about 15 years left.

Mr. RILEY. For a new program in a country just now starting, it

can go for a total of 20 years.

Senator Fulbright. I see. In other words, if the funds could be allocated, you could create in any one of the participating countries a trust fund to carry on a program for a specific period of years.

Mr. Riley. Yes, sir. We did that in either Australia or New Zea-

land.

Senator Fulbright. You did it in Australia.

Mr. RILEY. We have a 20-year program. Actually, there is not a limit on the 20 years. The limit is not more than \$1 million per year, and not more than 20 years at that rate. So it could go farther, longer than 20 years, if it was a small amount.

Senator Fulbright. In other words, if the administration saw fit, you could, with these funds, carry on a program at a certain specified

rate for 5 or 10 years; is that correct?

Mr. RILEY. That is correct; yes, sir.

Mr. White. I would like to comment on this, Senator Fulbright, if

I may.

In the negotiating committee, this question has come up, and they have, I believe, concluded some 3-year programs. They were discussing longer programs, and it was considered the country would be coming back for more surplus commodities next year, and we could take care of it periodically and keep it ahead over a long period of time.

Senator Fulbright. I thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

## OFFSHORE PROCUREMENT

We have one other witness here on the offshore procurement, Colonel Critz.

You are from the Office of the Military Assistance Program, are you?

Colonel Critz. Yes, sir.

# STATEMENT OF COL. HARRY H. CRITZ, USA, OFFICE OF MILITARY ASSISTANCE PROGRAMS, DEPARTMENT OF DEFENSE

The CHARMAN. Have you a prepared statement?

Colonel Critz. I do, Mr. Chairman, which I would like to submit for the record.

The CHAIRMAN. We will be very glad to have you put it in the record, Colonel.

Colonel CRITZ. Thank you, sir.

(The statement referred to is as follows:)

STATEMENT BY COL. H. H. CRITZ, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (ISA) ON OFFSHORE PROCUREMENT PROGRAM

Mr. Chairman and members of the committee, there are three sources of supply for items included in the approved mutual defense assistance materiel program. Some of the items can be furnished from supplies on hand in the Army, Navy, or Air Force. Many of them come from new production in the United States. The third source is "offshore procurement," a term used to describe purchase by the United States of military equipment and supplies from sources outside the United States for delivery to other friendly countries as part of the mutual defense assistance program. This type of procurement was first undertaken in a relatively small way in connection with to Greece in 1947 because the United Kingdom was then the only source of supply for replacements, spare parts and ammunition for the British types of military materiel with which the Greek Armed Forces were equipped. If this equipment had not been procured offshore in the United Kingdom, it would have been necesary to completely reequip the Greek Armed Forces with United States type equipment, an extremely costly undertaking.

When the mutual defense assistance program was initiated in 1949, it was planned to supply United States types of equipment to our allies, mainly from existing United States stocks. It was also planned that any new procurement would, in part, be delivered to United States forces to replace stock items previously shipped to our allies. At that time, this seemed to be the most expeditious way of getting weapons into the hands of allied soldiers, and thereby strengthening the overall capability of the free world to resist aggression. The attack in Korea, however, upset these plans, and the stocks of military equipment and ammunition which had been programed for delivery under the mutual defense assistance program were necessarily diverted to meet the urgent requirements of the Korean war. It was therefore essential that the program be altered to provide MDAP equipment from new production; and it was immediately apparent that the United States taxpayer could be afforded some relief from the continuing and unending expense of maintaining United States equipment in the hands of our allies, and providing replacements and spare parts therefor, if arrangements could be made whereby our allies could obtain maintenance, replacements, and ammunition from their own sources and with their own currency.

Even more impelling than this basic economic justification for the offshore procurement program, are the logistic and strategic considerations. From the military point of view, it is considered essential, in case of war, that the maximum capability to produce replacements, spare parts and ammunition be available from sources as close as possible to the actual fighting, and not be subject to the hazards and delays of a long and precarious pipeline from the United States.

It was in the light of these basic considerations of economic, logistic and strategic advantage, that the offshore procurement program was initiated. As set forth in a Department of Defense Directive dated August 17, 1951, the four basic criteria which have always governed, and continue to govern, the placement of offshore procurement contracts are that such procurement will not result in one or more of the following:

1. Unjustifiable cost in comparison with procurement in the United States.

2. Militarily unacceptable delays in delivery.

3. Serious adverse effects upon the United States economy, employment or industrial mobilization base.

4. Threat to the security interests of the United States.

The first MDAP offshore procurement orders were placed in fiscal year 1952. By the end of fiscal year 1955, a total of \$2.8 billion of contracts had been let with foreign manufacturers. Of this amount, \$2.7 billion was contracted for in European countries, and the balance of \$120 million was contracted for in the Far East. As of December 31, 1955, 60 percent of the materiel being procured offshore had been delivered (\$1.7 billion), leaving a backlog of over \$1 billion to be delivered.

Ammunition has been the largest single category of materiel procured offshore, with total contracts amounting to over \$1 billion. Aircraft and aircraft components and spare parts form the second largest category, totaling \$465 million. Ships and ship components, valued at \$310 million, have been the third most important category. Other items which have been purchased offshore include

electronics, tanks, and artillery.

More than half the United States offshore orders were contracted for in fiscal year 1953 (\$1.6 billion), after indigenously financed orders had been placed by the other NATO countries for materiel required for the NATO forces buildup. Therefore, at that time, much of the munitions production capacity in Europe was already being utilized. When the large United States orders were superimposed upon those already placed by the European countries, proposed delivery schedules could be met only by improving production techniques and developing additional production capacity. Our offshore procurement orders thus resulted in both increased use of existing capacity and in considerable expansion of production facilities. It is estimated, for example, that European capacity for the production of ammunition doubled between 1950 and 1955.

This improvement, which is of such tremendous strategic and logistic importance to the defense posture of the free world must be attributed to the impact of the procurement offshore of a billion dollars worth of ammunition and large expenditures by European countries for ammunition. Upon completion of facilities assistance projects now underway Europe's capabilities to produce propellants and explosives will be further increased.

Offshore procurement contracts have been placed through negotiation. In most cases there was competitive bidding, with invitations to bid extended to specific or a limited group of countries or firms. It might be said that the con-

tracts have been placed under competitive negotiation.

In all negotiated contracts, price quotations supported by statements and analyses of estimated costs are solicited from any many qualified sources as are deemed necessary by the contracting officer to assure full and free competition consistent with the objectives of the program. All negotiated offshore procurement contracts are let in accordance with applicable laws, the Armed Services procurement regulations, bilateral agreements with foreign countries (which contain "no profits" and tax exemption clauses), and with principles established by the General Accounting Office.

Since the offshore procurement program was started, the United States has procured offshore approximately \$1 billion worth of ammunition. The defense budgets of our NATO allies have financed approximately \$1.6 billion worth of ammunition. During fiscal year 1956, the United States expects to contract

offshore for not over \$31 million of ammunition.

In fiscal year 1956, the Department of Defense is making a special effort, in placing contracts for the relatively small ammunition requirements to be procured offshore (approximately \$31 million, referred to above), to direct the orders into those plants most in need of business if their production capability is to be preserved. In order to point the way for European countries in assuming the burden of maintaining the defense production base, United States contracts for most of the ammunition being contracted for this year will be placed (1) for only 1 year, and (2) in a given country only if that country will agree to place orders of comparable magnitude. In future years, if a follow-on contract is awarded, the United States share will be reduced and host countries will be expected to assume an appreciably larger part of the burden of maintaining the facilities. By this progressive withdrawal of United States support, we plan that the burden of maintaining these plants will be transferred to the foreign countries, as a national responsibility.

Ammunition requirements shown in the fiscal year 1957 program before you total \$383 million. It is estimated that from \$50 to \$75 million will be procured offshore, using the "matching principle" referred to above. The balance will come from available United States stocks or production sources.

The volume of offshore procurement orders is declining. This is due in part to the changed nature of requirements, and in part to our continuing efforts to

transfer to our partners responsibility for their own defense production. However, the strategic and logistical advantages of a defense production base close to the theater of operations are still impelling. Offshore procurement orders are one of the means which we will continue to use to assist our allies in meeting their requirements for critical materiel and in maintaining the European defense production base which is so essential to the security of the United States.

In fiscal year 1957, in addition to the \$50 to \$75 million of ammunition referred to above, OSP will be considered for tanks, ship modernization, and other items. It is impossible at this time to estimate the total OSP because this is dependent on the United States stock position and other factors not now known, but it is roughly estimated that if the Congress approves funds for the \$3 billion program recommended by the President, OSP orders may amount to as much as \$200 million.

T how

I have made available to the committee staff a table on MDAP offshore procurement obligations and expenditures. This table is classified. However, those portions of it which relate to contracts placed and actual expenditures are unclassified and may be extracted for the public record if you so desire.

The CHAIRMAN. Can you tell us the highlights of your statement? Colonel Critz. Yes, Mr. Chairman; I can summarize them very briefly.

The CHAIRMAN. Yes, sir. We would appreciate it if you would.

#### CRITERIA FOR OFFSHORE PROCUREMENT

Colonel Critz. The four basic criteria which have governed in the past, and which still govern, the placement of our offshore procurement contracts, are such that these procurements will not result in one or more of the following:

First, unjustifiable cost in comparison with procurement in the

United States:

Second, militarily unacceptable delays in delivery;

Third, serious adverse effects upon the United States economy, employment or industrial mobilization base;

And, fourth, a threat to the security interests of the United States.

#### DEVELOPMENT OF OFFSHORE PROCUREMENT

Our first offshore procurement contracts were placed in 1952, and by the end of fiscal year 1955 they totaled \$2.8 billion.

Of this amount, \$2.7 billion were placed in Europe, and the balance,

about \$120 million, in the Far East.

As of the 31st of December 1955, approximately 60 percent of this

total, or \$1.7 billion, had been delivered.

The largest component of our offshore procurement program is ammunition, totaling about \$1 billion. Second are aircraft and aircraft components. And third are ships and ship components.

There are many other smaller items from there on down, in lesser

quantities.

More than one-half of the offshore procurement orders were placed

in fiscal year 1953, a total of \$1.6 billion.

Since that time, our orders have been decreasing, and in fiscal year 1956 we do not anticipate that we will be able to place offshore procurement orders for more than about \$90 million.

Of this, approximately one-third, or \$31 million, is for ammunition. We are placing our fiscal year 1956 contracts for ammunition on two conditions: (1) that the contracts are for only 1 year's production; and (2) that in a given country, the contracts are placed only if

that country has agreed to place orders of its own of comparable

magnitude.

In future years, if additional contracts are awarded, the United States share will be reduced, and the host country will be expected to assume an appreciably larger share. By this method, we plan to place the burden of maintaining the offshore production plants on the host countries; thereby, we hope, in the not too distant future. to make it a local responsibility.

Our ammunition requirements in fiscal year 1957, which are included in the program before you, amount to about \$383 million; of this total amount, we plan to place only about \$50 million, or perhaps

up to as high as \$75 million, in offshore procurement.

We will place those orders on the same basis as those in this fiscal year, that is, we will require the participating country to place comparable orders along with those of the United States, and they will be for 1 year's production only.

Our total fiscal year 1957 offshore procurement program should

not exceed \$200 million in all of its components.

That is a brief summary, Mr. Chairman.

The CHAIRMAN. Thank you very much, Colonel. We will insert the statements of Mr. J. E. Murphy, Controller, ICA. Mr. Howell. I am his Deputy, and I would be glad to explain any questions about those statements.

The CHAIRMAN. We will put his statement in the record. That is

agreeable; is it not?

(The statements referred to are as follows:)

STATEMENT OF J. E. MURPHY, CONTROLLER, ICA, RE ADMINISTRATIVE EXPENSES, SECTION 411 (B) FISCAL YEAR 1957

A summary statement of MSP nondefense administrative expenses is presented

in volume IV, page 257, of the estimates.

The President established the International Cooperation Administration on July 1 last year as a semiautonomous Administration within the Department of

This was the second major change in the MSP nondefense administrative organization. As you know, under the President's reorganization plan of 1953, 4 separate agencies were consolidated into 1 organization. The reorganization resulted in major savings in administrative costs. From fiscal year 1953 to fiscal year 1955 the annual rate of administrative obligations were reduced by \$16.8 million; a 34 percent savings in annual costs under the fiscal year 1953

This year the obligations will increase about \$2.5 million over that of last This resulted from several factors: (1) personnel costs increased as a result of Federal employee pay raise and educational allowances authorized by new legislation; (2) it became evident that the fiscal year 1955 staffing levels were too low. Backlogs of work and serious administrative deficiencies threatened the effective planning, management, and control of the total program, and

(3) inflationary trends overseas have resulted in greater operating cost per employee for housing, contractual services, supplies, and other operating costs. The fiscal year 1957 MSP administrative expense estimates of \$35,250,000 propose a 1 percent increase of about \$400,000. This increase is modest compared with the job to be done. The difficult problems of program administration and control which are to be expected with operations as complex, varied and widespread as those of ICA are further complicated by their variability and unpredictability. In addition to carrying out continuing programs, all of which involve elements of urgency, it is necessary to respond quickly to changing world conditions. New action programs must be developed in response to crisis situations and put into effect virtually overnight. Radical adjustment to continuing activities must be effected in the face of changing circumstances. Above all else, essential program, administrative and financial controls must be maintained to insure that the vast sums applied to these programs are wisely expended to promote the achievement of United States objectives at minimum costs.

While all program operations have an effect on administrative staffing needs and costs, project-type activities have the greatest effect on administrative work-Under these programs there is a large requirement for administrative programing and arrangements and financial and administrative backstopping, both because they include large numbers of individual projects and because these projects include large technician and training components. An analysis of the program indicates that for each successive year of operation and again in fiscal year 1956 these workloads are on the increase. A good general indicator of the workload content of these programs is the number of man-years of technicians which are increasing from about 3,500 in fiscal year 1955 to 5,800 in 1956 and 6,400 in fiscal year 1957. Foreign participants scheduled to start training are increasing from 3,175 in 1955 to over 6,000 in 1956 and 1957.

It has been possible to schedule our additional administrative expense requirements in underdeveloped areas with only a small increase in our total costs by making continued large reductions in European missions. From 1955 to 1957 annual costs for European missions are reduced by almost \$1.5 million,

including a reduction of \$0.7 million scheduled for fiscal year 1957.

The fiscal year 1957 administrative expense estimates reflect our best judgment in maintaining an appropriate balance between the desire to make maximum reductions to administrative costs and the necessity to insure the achievement of the major objectives of the mutual security program.

STATEMENT OF J. E. MURPHY, CONTROLLER, ICA, RE AGRICULTURAL TRADE, DEVEL-OPMENT AND ASSISTANCE ACT OF 1954 (PUBLIC LAW 480)—ADMINISTRATIVE EXPENSES FISCAL YEAR 1957

In the proposed new section 411 (c) for the Mutual Security Act of 1956, authorization is requested for \$1.5 million for necessary administrative expense of carrying out functions under the Agricultural Trade, Development and Assistance Act of 1954. This new language will provide funds to cover administrative expenses incurred by the International Cooperation Administration in carrying out its functions with respect to foreign currencies derived from sales of surplus agricultural commodities under Public Law 480. At present no appropriations are expressly authorized for this purpose, and with the increasing scope and importance of Public Law 480 functions, it is now essential to provide a source of appropriated funds to cover these costs.

The purpose of the Agricultural Trade, Development and Assistance Act of 1954 (Public Law 480, 83d Cong.) as amended, is "to increase the consumption of United States agricultural commodities in foreign countries, to improve the

foreign relations of the United States, and for other purposes."

Title I of the act provides for the sale for foreign currencies of surplus agricultural commodities over a 3-year period ending June 30, 1957. The act was amended by Public Law 387, 84th Congress, which increased the amount for which appropriations could be requested to reimburse CCC for losses incurred as the result of sales from \$700 million to \$1,500 million. Congress further provided that this amount should "be considered as an objective, as well as a limitation, to be reached as rapidly as possible so long as the purposes of this act can be achieved within the safeguards established.

Primary responsibility for sales under title I of Public Law 480 was assigne ito the Department of Agriculture. While ICA has participated in the development of sales programs with the Department of Agriculture, the major impact of the Public Law 480 program on ICA administrative requirements relates to ICA responsibilities for the programing, administration and control of foreign

currencies derived as sales proceeds in the act.
Under Executive Order 10560, ICA is responsible for the administration of local currencies so derived in accordance with section 104 (d) for financing the purchase of goods and services for other friendly countries, 104 (e) for promoting balanced economic development and trade among nations, and 104 (g) for loans to promote multilateral trade and economic development. Sales agreements signed as of March 31, 1956, indicate that about \$472 million of local currency proceeds will be available for ICA administration. Additional programs now under consideration or negotiation may increase this amount to

nearly \$800 million by the end of this fiscal year. ICA administrative require-

ments relate principally to-

1. Review and approval of Public Law 480 local currency project proposals from USOM's to determine relationship to MSP programs, economic feasibility and conformance of proposed projects to United States interests in the country. This includes the necessity to determine whether each project proposed by the country (1) makes a significant contribution to the economic development of the country; (2) is of a high priority and (3) is technically sound.

2. Controller activities in the fields of budget, audit, accounting and financial management of the local currencies derived from the program. These United States owned currencies should be subject to the same basic controls that are applied to dollar funds. Even so, the staffing projected for the Controller Office assumes that while basic controls will be applied, simplified procedures can be developed for this program and that, for instance, we will be able to rely heavily on participating government staffs and protect United States Government interests through post audits rather than through approval of individual transactions.

The scope of this program requires a major new effort on the part of ICA

in fiscal year 1957.

MUTUAL SECURITY PROGRAM—ESTIMATED UNOBLIGATED AND UNEXPENDED BALANCES FCONOMIC AND TECHNICAL ASSISTANCE APPROPRIATIONS

#### UNOBLIGATED BALANCES

The presentation books which have been in the Senate Foreign Relations Committee anticipate unobligated funds as of June 30, 1956, in economic and technical assistance appropriations totaling \$106.6 million. A review of the status of the programs financed from these appropriations just completed indicates that the unobligated balances on June 30, 1956, will probably total between \$165 million and \$190 million.

The specific items which will probably be unobligated are as follows:

In	nillions
President's Fund for Asian Economic Development	\$90.0
Palestine Refugee Act	
UNTA	
OAS	
Development assistance—NEA	
President's Emergency Fund	3. 7
Prior year funds	<b>15.</b> 0
m-4-1	101 5

In addition to these specifics it is probable that the cumulation of small unobligated balances in the multitude of accounts could total as much as \$25 million.

## UNEXPENDED BALANCES

Presentation books indicate that unexpended balances in economic and technical assistance appropriations on June 30, 1956, will amount to \$1.664 billion. ICA is currently in the process of a detailed review of the expenditure estimates in preparation for the hearings in the House Appropriations Committee. Until this analysis is completed a refined reestimate will not be available. However, on the basis of expenditures reported through April 30, 1956, it appears that total expenditures for fiscal year 1956 from economic and technical assistance appropriations will approximate \$1.6 billion and the unexpended balance on June 30, 1956, will approximate \$1.8 billion as compared to the estimate of \$1.664 billion previously used.

The CHAIRMAN. Is there anything else anyone present wishes to enter in the record?

If there is nothing further at this time, the committee will recess until next Thursday, at which time General Gruenther is to appear.

Thank you very much for your attention, gentlemen.

(Whereupon, at 12:45 p. m., the committee recessed, to reconvene at 10:30 a. m., Thursday, May 31, 1956.)

## **MUTUAL SECURITY ACT OF 1956**

## THURSDAY, MAY 31, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to call, at 10:10 a.m., in the Caucus Room, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Fulbright, Humphrey, Mansfield,

Morse, Long, Smith (New Jersey), and Aiken.

Also present: Senator Symington.

The CHAIRMAN. The committee will come to order.

We have today one witness, Gen. Alfred M. Gruenther, supreme allied commander, Europe. General Gruenther will shortly retire

from that position to be succeeded by Gen. Lauris Norstad.

General Gruenther appears at the suggestion of the Department of Defense and of the committee itself, to discuss those parts of the pending mutual security legislation which relate primarily to the North Atlantic Treaty Organization.

Following the public appearance of General Gruenther, the committee will go into executive session, and it is suggested that no questions be asked until the general has completed his statement and the committee has gone into executive session.

General, we are delighted to have you. You are no stranger to

this committee, but we are anxious to hear you today.

Will you permit me to say this before you begin your statement. We have a number of representatives from the various parliaments of the North Atlantic Treaty Organization who are present. The committee welcomes these distinguished representatives from the various states represented in the North Atlantic Treaty Organization. Gentlemen, we are very happy to have you here with us this morning.

General, you may now proceed. Do you have a prepared state-

ment?

# STATEMENT OF GEN. ALFRED M. GRUENTHER, SUPREME ALLIED COMMANDER, EUROPE

General Gruenther. I will speak without notes, Mr. Chairman. My presentation will deal with the area for which I have responsibility, namely, that part of NATO, Europe, which is shown on this map in the dark green [pointing].

However, I would like to make it clear to the committee that I am supporting the entire program which has been submitted to you by

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the President, as well as the concepts which underlie the philosophy of that program.

### IMPROVEMENTS IN THE NATO AREA SINCE 1951

The particular area for which I have responsibility is the same as that for which General Eisenhower had responsibility in 1951 and early 1952. This area extends some 4,000 miles from the northern tip of Norway to the eastern border of Turkey.

When General Eisenhower came to Europe in January of 1951, the defensive capability of the nations in this area was very low; but, what was even worse, was the fact that there was no common concept

for using the limited forces which were available.

We did not even have the means to communicate decisions to our subordinate headquarters if the need had arisen. Our situation today is much improved. Our military resources are 4 to 5 times what they were then, qualitatively, unit for unit, our forces are much more effective, we now have a common concept, and we have the organization to implement our concept.

We have 4 regional headquarters, 1 at Oslo for the protection of Norway and Denmark, on our critical northern flank; another at Fontainebleau for the protection of the central area; a third at Naples for the protection of Italy, Greece, and Turkey; and a fourth at Malta

for the Mediterranean Sea lines of communication.

Each of those headquarters has, in accordance with our overall concept, developed plans which could be implemented today. The question is: Would we be successful? Are we yet strong enough to defend this area?

#### GERMAN CONTRIBUTION TO NATO

And the answer is, we could not guarantee a successful defense. We are not yet that strong. That is the reason we are seeking improvements in our forces; and that is the reason we have asked for a German contribution.

We feel that when we have the German contribution, when we have accomplished these improvements, we shall be able to give a reasonable

guarantee that we can defeat an all-out act of aggression.

That German contribution will consist of some 12 German divisions, about 1,300 aircraft, and a naval force to operate principally in the

Baltic area.

We estimate that the German forces will be effective in about 3 to 4 years. Near the end of this year we will have in being approximately five German divisions if present plans are carried out. Of course, those divisions will not be fully trained by then, but the program will be under way.

## MILITARY CAPABILITIES OF THE SOVIET BLOC

In our planning at SHAPE, we deal with military capabilities. We are not interested in smiles, pleasant talk, or particular receptions that take place at the Kremlin. Our job is to try to estimate realistically the capabilities of the Soviet bloc.

This immediately raises the question of whether or not those capabilities will be reduced as a result of the Soviet announcement made 10

days ago that there would be a reduction in forces of 1,200,000 personnel to include a reduction of 60 army divisions, 3 air divisions, and 375 naval vessels.

Assuming that the reductions take place, our job is to evaluate their impact on Soviet capabilities and on our defense problem. As you know, my mission is to prevent the overrunning of this green area (pointing).

### REVOLUTION IN STRATEGY

First of all we must recognize that the atom bomb has caused a revolution in strategy within the last several years. Thus, in the NATO area, as a result of this evolution in strategy made possible by the atomic bomb, we plan to defend with forces that are much reduced below what would have been required under the 1944, or World War II concept.

For some time we have been interested in and have speculated at considerable length as to why the Soviets have maintained such large

ground forces.

You will recall that they have now 175 divisions, and that in the satellite area there are about 75 divisions. When we considered the impact of the atomic bomb on our strategy, we looked at the Soviet forces. When we looked at the Soviets, we estimated that in terms of the threat this force poses and the capability it possesses, it could be fully as effective from a ground standpoint with approximately 100 divisions. Their announced reduction of 60 divisions, would bring them down to 115 divisions, plus the 75 satellite divisions.

## SOVIET AIR POWER

Next the question of aircraft: They have announced a reduction of 3 air divisions, or about 300 planes. The Soviets now have in their air force 20,000 operational planes. Three hundred out of 20,000 is not a very significant reduction unless, of course, the Soviets cut out 300 modern, long-range jet bombers. The Soviets have given no indication that they will reduce their long-range bomber strength and I think one can be permitted a reasonable doubt that the 300 planes that they are going to demobilize will be long-range jet bombers.

#### SOVIET NAVAL POWER

Coming next to the naval element, the Soviets announced that they will put 375 naval vessels in reserve. They have 400 submarines, most of them modern. Last year they built 80 new ones.

Now, if the 375 vessels to be eliminated are submarines, that would be a significant reduction in military strength. But again, I think one may be permitted a reasonable doubt that they will make material

reductions in their submarine strength.

The Soviet demobilization announcement was made unilaterally—the decision was made behind closed doors—and so far we have no indication as to what specific elements of their forces will be affected; but our estimate now is that it will not substantially reduce the capabilities of the Soviets against us.

We, therefore, feel that our programs should go ahead unchanged. The planned German forces are just as necessary now as they were before this announcement was made. Even if the reduction is implemented, those German forces and our planned improvements remain essential.

#### DISARMAMENT

I do not want to appear to have a negative view on disarmament. As members of NATO, we are interested in seeing that a war does not take place. An acceptable disarmament program could make a very significant contribution toward that objective. However, fundamental to disarmament is an effective inspection system and thus far the Soviets have shown no disposition to agree to such a system. You will recall that last July the President proposed a system of aerial inspections, but that has been consistently refused by the Soviets, and frequently in very sarcastic terms.

To sum up, the effect of this announced reduction even if it should take place, will be to leave the Soviet capabilities substantially unchanged. It is on those unchanged capabilities that we must base

our plans.

## DEVELOPMENT OF STRATEGY IN NATO COUNTRIES

Now I would like to make a reference to a criticism that is sometimes made; namely, that we, ourselves, are not up to date on strategy. We are working to adapt our strategy to the new weapons, and already we have reduced very significantly the forces that would be required.

But I think it is well to recognize that this is an evolutionary change; that it is going to require some time, and that nations don't

arrive at final decisions on such significant matters overnight.

There has been a great deal of progress in our thinking in the last 3 years; but I am sure that 10 years from now, when we look back on the strategy which we consider valid now, we will probably find that more changes of basic importance have occurred.

We have at our headquarters an advanced planning group which is doing nothing but projecting its thinking 5 years ahead. In a short time they will be moving 10 years ahead, as soon as they have the necessary basis for that type of thinking.

## MUTUAL AID TO EUROPE

One of the problems which is concerning a good many people is the necessity for a continuing aid program to Europe. The proposed aid program which you are considering consists, for Europe, of basically two elements: (1) advanced weapons systems; and (2) maintenance of the forces, largely conventional, which we now have.

## ADVANCED WEAPONS DEVELOPMENT

First the advanced weapons systems—our strategy now is an atomic strategy. Our plans call for the use of atomic weapons. principal means of offsetting our numerical inferiority in conventional forces.

However, we must assure that those forces of ours have the latest and best of modern weapons so that their capabilities to hold the enemy and force him to concentrate, thus becoming profitable atomic targets, are improved.

Our deficiency in air defense in Europe pinpoints another need for advanced weapons. Air defense is probably our biggest weakness. Under the President's recommended program, we would receive certain advanced weapons that would greatly improve NATO's air defense.

We feel that the new weapons are absolutely necessary, because even if the NATO countries had the money—the research programs and construction of the production facilities to produce new weapons would take a very long time. Furthermore they do not have the large amounts of money and the facilities required.

We feel that it is vital for the development of our military posture, and essential to our strategy that we integrate these advanced weap-

ons systems, into our program.

#### MAINTENANCE OF EXISTING WEAPONS

The second major element of the program for NATO Europe is based on an austere maintenance and replacement program of conventional weapons for keeping the forces at minimum safety levels. Any cut in either one of those two elements, namely, the advanced weapons systems or the conventional weapons system, would definitely have an undesirable effect on the strength of our alliance. This, we think, would be to the disadvantage of the United States.

#### FRENCH SUPPORT OF NATO

We hear from time to time the suggestion that our allies are not carrying their share of the burden. One example frequently cited is the withdrawal of French forces to north Africa, and the implication is that that action means a reduction in French support of NATO.

I think it is well to spend a moment on just what the French problem is. In Algeria there are 8½ million Moslems, and 1,200,000 Frenchmen. Those 1,200,000 Frenchmen live there now and their fathers and grandfathers lived there before them. They have been there for over a hundred years.

A guerrilla war has broken out in Algeria, and the question is how to settle it. The French have reached a decision that it is necessary to stop the guerrilla activities first, and that thereafter they will try

to reach a political solution.

The French know that by moving troops out of France, and specifically by moving them out of this area, (pointing to map) they have weakened the defense of this critical area. They have done that reluctantly, and their purpose is to get those troops back there.

We don't like to weaken our defenses here and neither does the

French Government.

I mention this only because, while it is unfortunate that they have gone, it has no bearing on the attitude of the French Government or of the French people toward NATO, nor has it lessened in any way their

intentions to defend that critical area.

You may have your own strongly held views on what the political solution should be and in the French Parliament there are strongly stated views being offered all the time. But I do say this: If you put yourself up as a one-man arbiter to decide what the political solution for that problem should be, you would have a very, very tough assignment.

Mr. Mollet, who is the present Prime Minister, is grappling with it now. In the French Parliament today there is a debate on this prob-

lem—as there has been nearly every day for the last 3 weeks.

My point is that the removal of troops from here to here [pointing], although unfortunate, and although weakening NATO's military posture, does not indicate a lack of support for NATO on the part of the French.

### GERMAN REARMAMENT

Another criticism which one hears is that German rearmament has

been lagging.

Based on our original estimates, it is true that the German rearmament process is going more slowly than we had hoped. However, as far as the intent of the German people is concerned, I do not think there is any lagging or any lack of determination to meet their requirements and their obligations to NATO.

Three weeks ago yesterday, I met with about 80 members of the Bundestag in Bonn, and I came away from there convinced that, although they were troubled, they were going to carry through their

commitments to NATO.

The Chancellor will be over here in some 10 days, and you will hear from him his own views on that subject.

## SITUATION IN CYPRUS

A third element of weakness in NATO is found in the Cyprus problem. As you know, there is a difference of opinion concerning Cyprus which has resulted in disturbances between the British on the one hand, and the Greeks on the other. The Turks also have very strong views.

That is certainly a disadvantage, and it is one of the strains in

NATO that we cannot overlook.

However, on the part of any one of the three nations, Greece, Turkey, or Great Britain, I do not think that the differences over Cyprus, unfortunate though they are, represent any lack of enthusiasm for NATO.

## MILITARY CONTRIBUTION OF NATO COUNTRIES

Now, an overall criticism which is often heard is that many NATO countries are reducing their military contributions, that they are

lessening their determination to defend themselves.

The military budgets for these countries for the year before General Eisenhower arrived in Europe—he arrived in January of 1951—totaled \$6.7 billion. They reached a peak in 1953 of \$12.8 billion. Last year, 1955, they had leveled off to about \$12 billion, so that in the last 5 years they have increased their defense budgets from \$6.7 billion to about \$12 billion.

From a standpoint of increase in length of service, I can remember very well in January of 1951 when we landed at Copenhagen, the Danish Army conscription length of service was 8 months. The Danish conscription period now is 16 months. The British conscription period at that time was 2 years; it is still 2 years.

It is a fact that there has been an increase in the level of expenditures, and I am convinced that there has been a dedication to the idea of collective security. That idea no longer has to be sold.

#### NATO SHOULD REMAIN STRONG

Having said that, I think it is well to recognize that the Soviet

competition is tougher than it has ever been before.

Although the Soviet military potential continues to rise, by changing their tactics and by eliminating belligerent talk and moving to a softer line, the Soviets have undoubtedly created problems in various parts of Europe, as well as in the United States. I think, however, any generalization, such as that NATO is falling apart, or that NATO is having a significant drop in determination, is an incorrect observation.

But even if it were correct, I think this essential element must be considered by the United States, that is, that our only chance of having an effective measure of defense against the Soviet bloc is by the alliance system. If NATO were falling apart, if that generalization were correct—and I repeat that it is not—it would be up to us, as the country with the responsibility for leadership in the free world, to see that it got put back together again.

NATO is not falling apart, but this is my way of stating that I feel that a strong and viable NATO is vital to the security of the United States and United States policy must work to preserve, help, and de-

velop the strength of the NATO alliance.

I consider that it would be wrong to look upon this, or any aid program, as a community chest project, or as an act of charity. It is a program to improve our own chances for survival. I am absolutely certain that no nation, whether it be the United States or little Luxembourg, can successfully withstand this group of 800 million people

except by the idea of collective security.

I have seen NATO develop from a very small force until it is now considerably more effective than it was when General Eisenhower arrived. I have watched very carefully the Soviet reactions to this strength we have built. At the 20th Party Congress which took place in February, speaker after speaker, in fact 11 out of 12 main speakers, cited as the No. 1 objective of Soviet foreign policy the dismemberment of NATO. That was the time when Mr. Khrushchev spoke for 8 hours, and in his own talk he repeatedly referred to the menace of NATO.

So while we recognize the shortcomings of the organization—and we do have them—we should also bear in mind that from the standpoint of the Soviets, NATO is a formidable threat to their objectives.

I have been talking about the progress we have made in the last 5 years. We have overcome many difficulties, and yet we still have some

shortcomings.

I think the next 5 years are going to be even more difficult, because the Soviets are getting much more clever in their cold war tactics. There is always a series of continuing problems coming up, and the atmosphere of fear in which the organization was created is beginning to wane, thanks in large part to the strength we have built.

The problem of obtaining public support is a much more difficult one than it was 5 years ago when the element of fear was at its height.

#### BUILDING AIRFIELDS IN THE NATO AREA

Now, I would like to tell you about some of our problems and how we solved them. When General Eisenhower arrived in Paris he found that the Soviets had a large number of airfields in the satellite areas, and he found there were many more under construction. Against this Soviet threat he had some 20 NATO airfields.

So his decision was, we must build airfields. Well, how does an alliance go about building airfields? Where does it get the money? How do you decide how much Norway will pay for an airfield in France, how much Italy will pay for one in Turkey, how much the

United States will pay?

There was no formula. The finance ministers worked on that for over a year, with no airfields being built. Impelled by a desire to go ahead, and in the then existing atmosphere, they got an answer, and we now have the situation shown on this chart (pointing). We now have about 130 operational NATO airbases.

The yellow dots show the ones that are incomplete or are programed

for future construction.

This is very significant progress, and it gives us a very much stronger

air capability.

You will notice that no airfields are shown in the United Kingdom. That is because they have their own national airfields that have not been built with NATO funds. This chart shows both the NATO and

the national airfields (pointing).

NATO did finally develop a cost-sharing formula—not necessarily the correct formula, because there is no such a thing as a correct formula. For example, Greece has a national income of less than \$200 per person and the United States has a national income of about \$2,000 per person. How do you decide what the Greek contribution should be? Should it be on the basis of \$200 to \$2,000?

Well, obviously that might not be the fair way. But we found a way, we were able to solve this problem, and we have these airfields

today.

It took a great deal of adjusting, a great deal of negotiating, and a great deal of patience and wisdom, to get a workable formula, and it took a certain amount of fear.

With the new attitude of the Soviets, we can expect them to try to reduce the fear element. A program such as this will probably be more difficult to arrive at in the future.

## PROBLEM OF OBTAINING FUEL FOR THE AIRFIELDS

Another facet of the airfield problem is shown on this chart (pointing). After building all these airfields, we had another very difficult problem because our planes use tremendous quantities of fuel when they are flying, and the tankcars and tank trucks in Europe were not adequate to supply our fuel requirements. That created, then, a necessity for a pipeline program, and this pipeline program has now been financed. It is still in the process of being built, but we will have over 3,000 miles of pipeline, to supply our airfield complex. It will be completed in a year and a half to 2 years.

I mention the airfield and the pipeline projects, simply to show that

we have made significant progress.

#### TRAINING OF NATO FORCES

In such fields as the training of air forces and the training of ground forces, we have made progress which is equally outstanding. Initially our troops were poorly trained. We had demobilized at the end of the war; and when General Eisenhower arrived, he found the state of training very low. Our training status is significantly improved now, although admittedly there are still defects and shortcomings.

As a final point I would like to mention the question of the change of emphasis within NATO which is frequently referred to in the press and which stems from the May 4 meeting of the Council in

Paris.

#### EXPANDING NATO ACTIVITIES

The purpose of the May 4 meeting in Paris was to expand the activities of NATO. All of the points I have been talking about today are related to the military concept, and in the May 4 and May 5 meetings the Foreign Ministers considered how NATO could expand into the economic and political fields, as well as in the cultural and information fields.

They came to no definite conclusions, and three Foreign Ministers—Mr. Pearson of Canada, Mr. Martino of Italy, and Mr. Lange of Norway—have been appointed as a committee to study this problem

and to make recommendations to the NATO Council.

But the point I would like to make is that at no time in the May 4-5 meetings in Paris was it considered that these activities were substitutes for military strength. They were considering them as supplementary actions to meet the new Soviet line, so that NATO could carry on a progressive policy of its own.

Basically, I feel that we are still going to have to have a strong posture of defense, and that there is nothing which has taken place on the Soviet side, from the point of view of Soviet military capabilities, which would justify a reduction in the programs which we

have planned now.

We are trying to enlist the assistance of scientists to be sure that our ideas on new military strategic concepts are up to date. As we develop new concepts they are submitted to the Standing Group—which consists of representatives of the United Kingdom, the United States, and France—and then ultimately to the Military Committee. We consult frequently with appropriate authorities of our member nations to insure that our military posture and our military tactics will not be out of date with the new weapons becoming available.

On the political-economic-public information side, I feel that we

On the political-economic-public information side, I feel that we are going to have difficult problems, but the three so-called wise men are studying these and I hope they will come up with some kind of an answer. I do not anticipate a magic answer and there again, I

think progress will be evolutionary and probably rather slow.

## SOVIET PROPAGANDA CAMPAIGN

One point that I think does merit some attention is the Soviet propaganda campaign. Their propaganda line is more effective now than ever before. We have made a very rough estimate that they are spending between a billion and a half and \$3 billion a year on propaganda.

We estimate that they have full-time employees numbering about This includes all kinds of activities—printing of pamphlets, radio broadcasts, cultural missions, and subversive activities in countries outside of the U.S.S.R. I feel they have very fine talent in this regard and they are busy in tearing down our institutions and attacking our strengths. Unfortunately, they are making substantial progress.

#### UNITED STATES SUPPORT NEEDED

I think this presents our side with a challenge and I feel that our own information programs are going to have to be stepped up, because we need to be certain we have the support of the American people.

As I read the discussions of hearings, before the Congress, on these information programs, the charge is frequently made that money is wasted. I am sure that that is true. But I think that in any type of research program like that you are going to have to accept some waste.

If I understand the figures correctly, we are spending this year about a billion dollars on guided-missile research. A great deal of that money is probably going to be nonproductive, because you start out on one line and you find that it does not produce results, and you have to start on another line.

Well, in the propaganda field, you are dealing with an element, the human mind, where research is going to run into many blind alleys.

I am sure the Soviets are wasting a tremendous sum on theirs.

I am not advocating waste as a virtue, but I am saying that in trying to work into these problems you are not going to get perfect answers the first time. And so, I would hope that in trying to get continuing support from the American people, that we would recognize the experimental nature of the problem and be patient as we try out one scheme after another, some of which will turn out to be foul balls; we can get some comfort because the Soviets make those mistakes, too, and we see a good many of them.

## BRIGHT OUTLOOK FOR FUTURE

I would like to end this presentation on a note of optimism. I feel that, considering the progress we have made in these 5 years, the

outlook for the future is a moderately bright one.

The job is going to be tough, because the competition is more keen than it has ever been; but basically the people of the NATO countries have accepted the idea of collective security, and I think, they are going to resist the Soviet lures.

And, mind you, what the Soviets are trying to do is to polarize this contest; they are trying to make it appear that it is a contest between the Soviet bloc and the United States, and their objective is to get these countries, 1 by 1 to stand on the side and be neutral.

They don't have any hope that they are going to be able to convert these countries to communism, but if they can get them to stand on

the side, that will be a major triumph for them.

That highlights the problem of American leadership. I think we must appreciate the fact that the progress which NATO has already made has had a significant influence on Soviet foreign policy, and that our survival in the future is going to depend on the alliance system.

## MAKING AN ALLIANCE WORK

I have been very much pleased with the progress the American people have made in understanding military strategy and the importance of modern weapons. But it is of equal importance that they understand how to make an alliance work—and it is difficult. It must be accomplished by a measure of mutual faith. Unless we have and are able to continue to develop mutual confidence between ourselves and our allies, then there is going to be absolutely no chance for survival.

I do not necessarily mean that there will be a hot war. But we could lose this contest in a cold war just as effectively and as surely as we could lose it in a hot war.

## IMPORTANCE OF MUTUAL SECURITY PROGRAM TO NATO

Fundamentally, I feel that NATO is a state of mind, and if we can discharge our responsibility in helping partners who need the help, which is the object of the legislation you are considering, I am sure that that state of mind is going to be a healthy one. If we remain strong I feel that we shall prevent a third world war from taking place. If we do this, then we shall more than hold our own in the cold war which is now in progress, and which gives every indication of continuing for some time, although under changed conditions and tactics.

Thank you very much, Mr. Chairman.

The CHAIRMAN. The committee will now go into executive session. (Whereupon, at 10:55 a.m., the committee recessed, to proceed in executive session.)

## **MUTUAL SECURITY ACT OF 1956**

## THURSDAY, MAY 31, 1956

United States Senate, Committee on Foreign Relations, Washington, D. C.

The committee met, pursuant to recess, at 10:55 a.m., in the caucus room, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Green, Fulbright, Humphrey, Mans-

field, Morse, Long, Smith (New Jersey), and Aiken.

Also present: Senator Symington; R. Ammi Cutter, ICA.

The CHAIRMAN. In order to give everybody a chance to ask questions of the general, I ask the members of the committee to observe reasonable restrictions in their questions.

# STATEMENT OF GEN. ALFRED M. GRUENTHER, SUPREME ALLIED COMMANDER, EUROPE

The CHAIRMAN. General, we are delighted to have you. May I say that I regard your public statement as being most concise, logical, and a clear presentation of the real issues here before us.

The Chair is going to forego any questions in order to give other members of the committee the best opportunity to ask you ques-

tions. We appreciate your appearance here very much.

I merely make one suggestion. You say there is not, in your judgment—and I am very happy to hear you say it—any likelihood that NATO will fall apart. If NATO should, however, drift apart, under Russian propaganda or for other reasons, it would be very difficult to conceive of how we could escape a degree of isolationism in America that we have not known for a long time.

There might be other answers, but presently, to my mind, it is very, very difficult to escape the conviction that we would go into a state of isolationism, perhaps of the whole hemisphere, which would mean, of course, a stagnant rather than an expanding economy, as well as the loss of a sense of security which is essential to every free people.

Senator Green, do you have any questions?

Senator Green. General, let me also congratulate you on your statement. It was so well thought out and so well stated that I do hope all the newspapers will print it in full.

It seemed to me it was as complete a statement as could be made at

the present time.

General Gruenther. Thank you, sir.

## SITUATION IN GERMANY

Senator Green. My questions are not from the point of criticism, but for a greater elucidation for myself. I jotted them down as you were speaking. [Deleted.]

I do not think the problem in Germany is nearly as great as those they have already solved since the war, and I think they have shown

a remarkable degree of progress in that country.
General Gruenther. Yes. Now while we cannot tell why they did it, the Soviet announcement of plans to demobilize 1,200,000 could very well be connected with the future of Germany. For propaganda purposes in Germany, this is the ideal time for the Soviets to announce [Deleted.] this reduction.

Three weeks ago yesterday I spoke at a meeting where there were 80 members of the Bundestag, and while they were alert to their responsibilities and the facts of the world situation, they were also aware of internal political problems. [Deleted.] After all, there is an election coming up next year in Germany. Senator Green. We also have one here.

General Gruenther. I have heard that; yes, sir. [Deleted.]

## EFFECTIVENESS OF NATO

Senator Green. You made reference to the present status of NATO.

General Gruenther. Yes, sir.

Senator Green. And I understood you to say that there is no serious weakening of NATO. Do you believe that NATO is practically, if not theoretically, effective?

General Gruenther. Oh, yes, NATO is active and very effective. I would like to elaborate on that, sir. We have many shortcomings, and I outlined four of them there: One, the French problem in Algeria; the slowing up in the German rearmament-

Senator Green. Then you mentioned Cyprus.

General Gruenther. Yes, Cyprus, and also the fact that some of our early enthusiasm has diminished. And so those are all shortcomings, there is no question about that.

But, fundamentally they believe in collective security, and the organization can be kept going, and going as an effective one.

The fact that you have this unity in NATO, is a tremendous asset to the free world. [Deleted.]

#### QUALITIES NECESSARY FOR LEADERSHIP

Senator Green. But do you think we are undergoing a change in our underlying philosophy?

General Gruenther. Well, I don't think so, but our people need

more training if we are to be good leaders. [Deleted.]

Recently I spoke at a graduation exercise. I asked one graduate, "What is the population of the United States?" He couldn't begin to answer. I said, "Do you think it is 5 million?" He said, "I think it is more than that." I asked, "Is it 50 million?" He wasn't sure, so we compromised on that and didn't get into it any further.

He is probably a good engineering student, and he is going to be

getting \$425 per month.

I am sure he is worth \$425, but he is not worth it in the game in which I am engaged, because he did not have the kind of training needed to provide leadership in international affairs. He had no idea of what is required to create the unity necessary to make an alliance effective.

Neither my early training nor that of most Americans is directed at providing individuals qualified for international leadership responsibilities. I have been studying 12 hours a day for the last 15 years trying to make up for what I didn't learn before.

Senator GREEN. I know there is frequent criticism that we are turn-

ing out technicians and not educated men.

General GRUENTHER. But I do feel this-

Senator Green. We need both.

General GRUENTHER. I feel we are going to have to orient our edu-

cation more and more this way.

At this school, I was interested in how many young men were considering going into the Foreign Service. One out of a graduating class of 150 was considering it. Even he was not sure. He was not certain what the Foreign Service was, but he thought he might be interested.

I asked why there was this lack of interest. And they said, "Nobody has been around to speak about this before, and we don't know

what the problems are."

It is that sort of know-how I am talking about. The British who were a major influence for a hundred years, started their kids at 8 to 10 years old, studying in those fields that would enable these individuals to be responsible and effective leaders in world affairs.

Senator Green. Has the progress in the atomic field reflected in

any changes in our underlying philosophy?

General GRUENTHER. Our underlying philosophy with respect to an alliance, Senator?
Senator Green. Of world affairs.

General GRUENTHER. Oh, I think so. I think we have made a great deal of progress in the last 15 years. I think it has done that. But the Soviets have made the job more difficult, Senator.

Senator GREEN. But looking into the future, do you think we should

make changes?

General Gruenther. Like what, for example?

Senator Green. Well, like abandoning the expenditure of millions on one thing, and spending those same millions on something else more profitably.

General Gruenther. If there are situations like that, I think we should certainly be flexible. I would hope we would be flexible enough

to do that.

Senator Green. I mean, do you think we are?

General Gruenther. I don't believe I could make a valuable comment on that, because I just don't know enough about the expenditures. Senator Green. Thank you very much.

The CHAIRMAN. Senator Smith?

Senator Smith. General, I want to join my colleagues in expressing appreciation of your clear-cut presentation. I was not surprised, because I have heard you before, both here and in France.

### EFFECT OF THE HOUSE CUT IN MILITARY AID

The one thing that concerns me here is the question of the program this year as it is presented to us. Just giving the high spots, we are asked for roughly \$4.9 billion for the whole foreign-aid program. Of that, approximately \$3 billion is for the military end of it, and \$1.9 billion for economic aid.

We are up against a policy which I have supported, and I assume you support as a military man, of collective security pacts. We have NATO, and the Hemisphere Pact, and SEATO, and special pacts we

have made in other places, for the security of the free world.

The \$3 billion asked for this year is supposed to cover the continua-

tion of the military program.

We are faced now with the reduction of the Russian forces, and, of course, there is pressure on many of us to save money and relieve the

The House committee has faced that by cutting the amount in the authorization by a billion dollars. And the argument is made we can do that because what we need for the immediate future, possibly for 2 years, is all in the pipeline, it will go along, and we could save the taxpayers a billion dollars. And that is the general line of thought.

We cannot ignore that, but personally I am very much frightened with the suggestion of it, from what I have heard in our testimony and the figures, and my first question to you is: I assume that so far as the NATO figures are concerned, you are thoroughly familiar with the way the program was worked out in dollars and cents for NATO. Are you familiar with the so-called pipeline part of this thing, and can you give us assurance that we must have the full \$3 billion in order to keep the pipelines going?

General GRUENTHER. I cannot answer the question, Senator Smith, on the pipeline. What I can assure you is that the equipment included

in the program is an austere and necessary quantity.

But perhaps someone from Mr. Hollister's office or from the Pentagon should answer your question on the pipeline. I just cannot be very helpful on that subject. Discussing the pipeline gets you into questions of funding and lead time on which I am not informed and which are the concern of Washington agencies. I can say that when aid was programed for NATO it was needed, and I am certain some is still in the pipeline. In addition all the items for NATO in this program are needed and they are not in the pipeline.

Senator Smith. Well, unless the pipeline can deal with it, we are facing the immediate question of whether we can cut our militaryassistance program from \$2,925,000,000 to \$1,925,000,000. We must keep in mind that the figures make up the entire military program, with \$530 million this year for advanced weapons, which is an entirely

new figure.

General Gruenther. My view, sir, is that a cut of a billion, applied principally to the NATO program would, if sustained, have a very

serious effect on NATO.

From the standpoint of the executive branch, I cannot see how they could work out a program with this cut that would not cause NATO They could not provide even the needed advanced serious harm. weapons. [Deleted.]

#### ADVANCED WEAPONS DEVELOPMENT

Senator Smith. In other words, you consider the \$530 million for advanced weapons as a "must."

General Gruenther. If I understand what the House Foreign Affairs Committee did—and again, you have better witnesses than 1 on that—they have limited aid for NATO Europe to \$402 million.

Senator SMITH. Well, that is what I am getting at. It seems to me if we take the picture as a whole, the other "musts" in this picture are aid for Korea, Formosa, and Indochina, in the Far East. That is not within your jurisdiction, but from all the testimony we have gotten, the figures given us for those areas are "musts" to start with. So are the advanced weapons.

General Gruenther. I would think so.

Senator Smith. I do not have that breakdown between the two areas at the moment, but assume you are compelled to take the cut out of NATO. I do not see any other place to take it from, at all. We hope we can get Germany built up with us, but they need our money, certainly, for that.

I do not see how you can take it out of the program you have been

describing.

General Gruenther. Well, I don't either, Senator.

Senator Smith. That is what troubles me, unless it can be taken care of by the pipeline.

General Gruenther. It troubles me very much.

### NECESSITY FOR CONTINUING THE PROGRAM

Senator Smith. In your testimony, if I got it correctly, you said that nothing the Russians have done in the way of cutting down army, air, or navy forces should change our program at all. You feel that we must keep our guard up just as we did before, irrespective of what the Russians have been saying about the reduction of forces. General GRUENTHER. I feel it very strongly, sir.

Senator Smith. That is an important point I want to emphasize, and I also feel strongly that unless we continue aid to Europe and the NATO program, there is real danger of NATO going to pieces.

General GRUENTHER. Well, I would not want to predict the thing is going to go to pieces, but it would certainly tend to indicate reduced

interest.

You see, the Soviets want to make this out to be a contest purely between the United States and the Soviet Union.

Senator Smith. That applies not only to your area, but it certainly applies, from my study of it, to the Far East.

General GRUENTHER. I would think so.

Senator Smith. This new theory on the part of the Russians of giving technical assistance is simply trying to win people away from us and leave the row between the United States and Russia.

Nothing would give me more apprehension than to feel we are slowly

being isolated and being pushed back.

Senator George has pointed out in his statement that we would be

pushed back and left as isolationists. [Deleted.]

I assume from your opening statement that while you did come here to testify on the NATO situation, you have the whole world in mind and the relation of the other parts of the world to the NATO program.

General Gruenther. Yes, sir, I do.

Senator Smith. I will yield to somebody else, Mr. Chairman. thank you.

The CHAIRMAN. Senator Fulbright?

Senator Fulbright. General, I join the others in congratulating you on a very fine statement. I am very sorry to see you leave NATO. Senator Smith. We all are.

#### PEACETIME USE OF PIPELINE

Senator Fulbright. General, can this pipeline system that you described be used for peacetime purposes?

General Gruenther. Yes, sir.

Senator Fulbright. Is it designed with that in mind?

General Gruenther. Yes. Senator Fulbright. Ultimately.

General Gruenther. It can be used. [Deleted.]

#### ITALIAN ELECTION

Senator Fulbright. General, do you think the elections in Italy have been, as reported in this morning's paper, beneficial?

General Gruenther. Yes; I think they have been beneficial. Senator Fulbright. They show a lessening of the strength of the Communists.

General GREUNTHER. That is right.

Senator Fulbright. Would you call that a step forward? General Gruenther. Yes.

#### CHANGE IN SOVIET POLICY

Senator Fulbright. General, how would you analyze the change in tactics of the Russians?

There are a number of people who feel that they have concluded that a nonmilitary competition is for their own advantage, and so they are minimizing the military side.

How do you feel about it?

General Gruenther. Well, it is possible, of course, that they are moving in that direction, Senator, but before coming to that conclusion I think that we would have to have some more convincing evidence, because they are continuing to increase their military capabilities. [Deleted.]

Although I think it is fair to say that they are extending their competition into the nonmilitary fields, but there is no evidence that

they are reducing their military capability. [Deleted.]
The change that you are talking about may be coming, but we don't see it from the standpoint of military capabilities. I believe they are overextended; and that may be one of the factors that caused them to announce a cut of 1,200,000. I think that there were three possible reasons for this announcement:

First of all was the propaganda effect. The very fact that your constituents are mentioning it and the constituents in Germany and elsewhere are mentioning it, is evidence of the effectiveness of the

announcement as propaganda.

Secondly, they have a manpower problem. The rate of men coming into the Soviet labor force hit its peak in 1953, and it has started going down now, reflecting the lower birth rate during World War II. So they have a labor shortage that can be eased if they actually demobilize 1,200,000.

And thirdly is the point mentioned before that new tactics in the

military field do not require such large numbers.

In their new, sixth, 5-year plan, they will reach their goals more easily by getting additional manpower and by increasing produc-

tivity. They are still very inefficient in several areas.

For example, as I recall the figures, there is about 10 percent of the labor force in the United States engaged in agriculture production. In the Soviet Union, close to 50 percent is engaged in agriculture, reflecting a fantastically poor productivity.

The Soviets are trying to improve their productivity and they are concentrating on heavy industry to do this. But I do not see them lowering their military potential; in fact, I see them increasing it.

lowering their military potential; in fact, I see them increasing it. Senator Fulbright. Do you think it would be beneficial to us or NATO if we could encourage them to decrease their emphasis on military strength?

General Gruenther. Oh, yes; surely. I think it should be done,

but not on a behind-closed-doors basis, Senator.

Senator Fulbright. When they announce a reduction, do you think we should welcome it, or just discount it and say it does not mean anything?

General GRUENTHEE. I think we should be very cautious about that. Senator FULBRIGHT. How do we, then, encourage them to change

from military preparations to nonmilitary competition?

General GRUENTHER. Senator, I am convinced that the only true type of security we can get will depend on having an inspection system which will give us a reasonable hope of being able to avoid a surprise attack. [Deleted.]

### ATLANTIC UNION

Senator Fulbright. Do you see any alternative to continued military preparation?

General Gruenther. With conditions as we know them now, I can

see no acceptable alternative.

Senator Fulbright. What do you think of Atlantic Union as an

alternative? Do you support such an idea?

General GRUENTHER. I think any feasible action which would improve unity within NATO is all to the good. However, any such development would not of itself be a basis for reducing military strength.

Senator Fulbright. What I really meant is that it would be a mechanism to keep NATO together. You indicated, I believe, that there is some tendency for NATO to fall apart. You stated that it was created as a result of fear, but now that the fear is receding there is a tendency for it to fall apart.

Is there any possibility, in your view, of substituting for fear a political union or anything else? I am only asking you. I am not

promoting it.

General Gruenther. There are various measures by which NATO's unity could be increased. The most important requirement is to create an understanding on the part of the public as to the need for unity. There must be a realization of the nature of the threat. I think that is fundamental. As to the next step, there should be much closer economic and political cooperation than exists now. How rapidly this step should proceed is beyond my competence, but the matter is under intensive study now. For example, I was, and I still am, in favor of EDC. But the EDC concept was probably premature. You will recall that it involved a strong political and economic union of six European countries. Unfortunately, public opinion was not ready for it. I feel that any further expansion of NATO's unity should start from the base provided by the present military alliance. We have made considerable progress in the field of military unity. Of course, the Soviets are making it tougher for NATO by lessening the fear of Soviet aggression. In that way the need for a military alliance tends to diminish in the popular mind. I am certain that the Soviets will do everything possible to interfere with the development of NATO's unity.

Senator Fulbright. Well, we are in a dilemma. We welcome their lessening of fear, if they do anything which gives reason to lessen the

fear.

General Gruenther. Quite correct. I feel that we must take a constructive approach toward any real mellowing of the Soviet attitude. At present, however, they are continuing to increase their military strength, and that is a most disturbing complication.

Senator Fulbright. And yet there is the difficulty of what to do to maintain our defenses. What is the answer to it? You do not

want us to create the fear.

General Gruenther. It is like that old jingle. How does it go? "There was a lady from Niger, who went for a ride on a tiger. They came back from the ride, with the lady inside, and a smile on the face of the tiger."

We have just got to be sure.

#### IMPORTANCE OF LEADERSHIP

Senator Fulbright. One last question.

You do not have to comment on this. I thought perhaps you should

be given an opportunity to.

There was an article in the Post this morning entitled, "Wooden Leadership," by Mr. Lippmann, a well-known commentator and writer. He is very critical of the idea behind this foreign-aid program. He says, in the last sentence:

"Insofar as there has been such a relapse, it is due to a failure in leadership, failure to argue the case for foreign aid in terms which

are relevant and convincing."

Would you care to comment on that, or not? I do not insist you do. I thought perhaps, since you are here, you should have an opportunity to do so if you care to.

General Gruenther. Well, I think it is fair to say that in over 5 years the leadership of NATO has made mistakes. assume that Mr. Lippmann's comment was directed more to the leader-ship of the United States. It seemed to me that he was criticizing United States leadership more than NATO leadership, although, of course, he is talking-

Senator Fulbright. I agree. I think that is what he had in mind. General Gruenther. What I think he is saying is that our strategic concept is not up to date. Well, I am sure that is true; it is not up to When gunpowder was first used it took men a hundred years to adjust the strategy to the new weapon. I think anybody could criticize the strategy in NATO and do it successfully, but we are mov-

ing and we feel we are moving in the right direction.
As to the leadership of the United States, I am sure that the people who are in charge of that will also recognize certain mistakes that they made; but, by and large, my feeling would be that on balance it has been an enlightened and effective leadership, Senator Fulbright.

Senator Fulbright. Thank you very much, General. The Chairman. Senator Aiken?

### LESSENING OF FEAR OF WAR

Senator AIKEN. General, you pointed out that one of the difficulties in strengthening NATO and uniting the NATO countries has been the lessening of the fear of war.

Has there been a corresponding lessening of the fear of war in

the Soviet bloc?

General Gruenther. In dealing with their public opinion, the Soviets continually talk about an aggressive NATO. Whether or not there has been a decrease in fear in the Soviet bloc is a question. We have some difficulty in getting an estimate of public opinion, of

what the people really think in Russia.

Travelers who come back from behind the Iron Curtain say that they are frequently asked, "Why are you so hostile to us? Why do you want to do this?" Soviet propaganda has created the belief that Americans are aggressive and are ready to attack the Soviet Union. That does not answer your question as to whether or not there has been a lessening of fear, and I do not really have an answer.

When Malenkov was the boss, he tried to reduce fear in Russia by saying: "In the event a third world war takes place, it will mean the destruction of capitalism." Well, of course, although he would not admit it, it would equally mean the destruction of communism. And as he continued his talk, he said, "It will just simply knock Pittsburgh out and Detroit, and so forth."

So, I just could not say whether public opinion in Russia thinks

that the danger is less.

Senator AIKEN. It seems to me they must be having the same problem, even though to a lesser degree than we are, because it also seems to me that since the Geneva meeting of last year, the fear of a general world war has decreased.

### NATIONALISM

And also, have we not had an increasing trend toward nationalism? General GRUENTHER. Not in the Soviet Union.

Senator AIKEN. No, not in the Soviet Union, but particularly on the part of small nations around the world.

General Gruenther. Oh, yes.

Senator AIKEN. Since the fear of a general war has lessened.

General Gruenther. That is one of the big problems of the West.

Senator AIKEN. That is right.

General Gruenther. Look how the Soviets treated Mollet. They told Mollet, "Well, we think the French policy with respect to Algeria is all right."

And then they call in all the Arab statesmen and say, "We drink to the health of the Arabs. The Soviets will always help anybody that fosters nationalism." That is, except within the Soviet Union.

Senator Aiken. As the fear of general war lessens, then we are confronted more and more with numerous smaller wars or incidents, the desire on the part of people of one country to get out of the colonial status-

General Gruenther. That is right.

Senator AIKEN (continuing). Or perhaps one country, a small country, sees a chance to step in and get something which perhaps belongs to them.

General Gruenther. There may be a tendency toward that. I would not want to comment on the dangers of small wars. Certainly there is a rising wave of nationalism now, and the Soviets do everything they can to promote it.

Senator AIKEN. Yes.

Just one other question: How does the evaluation of Russia on the comparative military strengths of NATO and the Soviet bloc, compare with your own estimates?

General Gruenther. Well-

Senator AIKEN. What are they telling their folks in that respect? General GRUENTHER. They don't talk to their folks about our strength. They talk about our intentions.

Senator AIKEN. Our aggressive intentions?
General Gruenther. Yes, and they know we have no aggressive intentions because they know NATO doesn't have a capability for aggression.

Senator AIKEN. Could we do better than we are doing in counter-

acting that phase of their attack?

General Gruenther. Well, I don't think that our own people believe NATO is aggressive. As to the people in the red area (pointing), we don't have much of a chance influencing their thinking. The Soviets have a big advantage in that they can compete for our public opinion, and we have almost no chance to compete for theirs.

Senator AIKEN. I have no more questions. I would like to add a dozen verbal roses to the flow of tributes that have been paid you

for your testimony here.

General Gruenther. Thank you, Senator.

The CHAIRMAN. General, I would like to ask you one question before Senator Humphrey questions you, if he will pardon me.

Senator Humphrey. Oh, certainly.

### MUTUALITY OF INTEREST

The CHAIRMAN. If, injected into this present picture, there should arise a belief in the NATO members in Western Europe that there would be a probability that the United States and Canada would become parties in a federated union, would that be a divisive influence right now?

General Gruenther. I would say that if the United States were willing to make that kind of offer it would definitely have a favora-

ble influence on the NATO members.

The CHAIRMAN. I would not want to say that the United States would be willing to do that because I presume that the men around this table would know better.

General Gruenther. I was taking your question as posing a hypo-

thetical situation.

The CHAIRMAN. Yes, a hypothetical question. I just wanted to get your view on that point, looking at it from the standpoint of the

Western European states.

General GRUENTHER. I would say this, Senator. Anything that can be done to create in the minds of our NATO allies the belief that there is a mutuality of interests between the United States and Western Europe, is all to the good. Any indications in that direction would be helpful. We must always bear in mind that United States participation in European affairs is something very new. Many of our Western European friends entertain the haunting fear that sooner or later we may pull back and leave them alone. All too often some of the public utterances of some of our prominent citizens give this impression.

The Chairman. I see.

General Gruenther. Talk of peripheral strategy causes this kind

of fear

I would like to cite one example that I think we have corrected. The announcement that I planned to retire and that General Norstad was going to take my place started some of the cynics saying, "Assigning an airman as Supreme Commander is a further indication of the United States' intention to return to peripheral strategy."

This was only a minority view, but it did come up in several papers. As I said, I think we have overcome this feeling as regards the sig-

nificance of General Norstad's assignment.

The CHAIRMAN. Yes. Senator Humphrey?

Senator Humphrey. Thank you, Mr. Chairman.

First of all, I want to join in the very appropriate tributes to General Gruenther, and I want to concur with what the chairman has said. I hope what the General had to say will be brought to the attention of the American people.

I think your statements are reassuring, General; and, believe me,

there needs to be some reassurance right now.

Thappen to be one who believes this foreign-aid program is in very serious trouble.

#### SOVIET MILITARY STRENGTH

You mentioned the Soviet military strength and its growing strength. Are those black-dot airfields [pointing] the ones with the concrete-base runways?

General Gruenther. Yes. Senator Humphrey. Have they been built since 1950?

General Gruenther. No. In 1950 the Soviets had about twothirds of those airfields, the other third have been built since then.

Senator Humphrey. Were they built since the Soviets acquired

this area?

General Gruenther. Yes, most of them.

Senator Humphrey. In other words, they are really Soviet-con-

structed bases.

General GRUENTHER. Yes, except some were built by the Germans, and the Soviets have expanded them. But by and large, that statement is correct.

Senator Humphrey. Is it not true that the Soviet Union is not only maintaining its military strength, but improving it, and at the same

time underplaying it publicly?

General GRUENTHER. That is right.

Senator Humphrey. And then vocalizing and pushing forward on the economic and diplomatic fronts?

General Gruenther. I think that is correct. Senator Humphrey. I read the other day that in the last budget of the Soviet there was a 12 percent increase in the military budget, that is, in the obvious military budget, and there may be much more concealed.

What would be your observation on that?

General GRUENTHER. I would want to verify that. It is my impression that that was true in the budget before last; but in the last so-called obvious military budget I think that there was a slight reduction, and an increase in capital investment.

So I would have said that you are right on the military budget for the year before last but on last year's budget, I do not think you are

right. But I am-

Senator Humphrey. I guess I was talking about the 1955 budget. General Gruenther. Yes. The current budget that they approved this January-

Senator HUMPHREY. Yes, that may be true.

General Gruenther (continuing). I think showed a reduction. Senator Humphrey. May I just find out.

The staff may recall the analysis which was made by the MIT people on the Soviet budget. Was it not Rostow or Millikan who said 12 percent?

General Gruenther. When were you up there?

Senator Humphrey. We were just up there in April. But the point, regardless of those figures, is, that in propaganda they are underplaying their military at the present time, and emphasizing their economic and diplomatic?

General GRUENTHER. Yes.

### PROPAGANDA METHODS

Senator Humphrey. It disturbs me that we are constantly talking about our military strength and not enough about the economic pic-

I have been making a little analysis of a State Department roundup of shortwave radio broadcasts and the foreign press, including the Soviet. How many times do you hear, for example, in Europe, a Soviet leader talking about bombing the United States?

General GRUENTHER. Very seldom. [Deleted.]

### NATO STRENGTH

Senator Humphrey. Senator Fulbright mentioned an editorial by Mr. Lippmann, and I have one which I noticed a day or so ago from Mr. Childs, in reference to NATO.

If you will permit me, I would just like to read this one paragraph

and get your comment. He says:

In foreign policy the atmosphere in the West today is one of increasing unreality, in a kind of twilight zone. We are not only willing but seeking to accept the shadow for the substance, the word for the deed. The North Atlantic Treaty Organization has for a long time been ailing, behind all the brave words of unity and strength. The military front of NATO has been withering away. France has left scarcely more than 5,000 troops in the NATO force. The rest have been pulled out to fight the guerrilla war in Algeria, and almost no one believes that the French can win. Of the 30 divisions on paper in Western Europe, at the most 12 are real, 5 American, 3 British, and a scattering of others. Ten probably would be nearer the truth.

Is that a fact?
General Gruenther. No; the article overstates the case.
[Deleted.]

### STABILITY OF THE NATO STRUCTURE

Senator Humphrey. Do you feel that the southern flank of NATO is crumbling? It has been said repeatedly in this country by the press. General Gruenther. Oh, no; I would not say that. No; certainly there is no crumbling in Italy. There is no crumbling in Greece or Turkey, for that matter. But there is this very serious strain, a three-cornered strain between the United Kingdom, Greece, and Turkey. I don't know how it will be settled. I think time will wear it away, but it is a tug, a pull, on the alliance at the present.

Senator HUMPHREY. The bases that we have in the North Atlantic Community, the North Atlantic Treaty Organization, are they on

lease?

General Gruenther. No; I wouldn't say they are on lease. Most United States bases in the NATO area are built under a bilateral agreement between the United States and the host country, and the terms of the agreements vary from country to country.

For example, we have some bases in north Africa, in Morocco. Well, those are on an arrangement with the French. Of course, the Government of Morocco has recently raised the question of their

status.

Senator Humphrey. I was just going to ask that.

General Gruenther. Now, we are going to have to negotiate with

the Moroccans.

On the other hand, NATO bases are built on a NATO common financing arrangement. There has been no trouble on those and we do not anticipate any difficulties. But the United States has the problem of these, which have been negotiated with the Spanish.

We have bases that have been negotiated with the British. We

have no trouble there. [Deleted.]

#### ATLANTIC UNION

Senator HUMPHREY. Just this final question. You are familiar with the proposal for a NATO convention, that is, for representatives of NATO countries to get together and talk over the possibility of strengthening NATO.

General GRUENTHER. Yes.

Senator Humphrey. There has been a resolution introduced here in the Senate-Senate Concurrent Resolution 12-and there have been some recent revisions of it. The last revision was merely to suggest that-

The President is requested to transmit to other democracies which sponsored the North Atlantic Treaty Organization the proposal of Congress that they name delegates to meet in a convention with delegates from the United States and from other democracies, to explore and report to what extent their people might, within the framework of the United Nations and in accordance with the basic principles of the Constitution of the United States, achieve more effective unity in advancing their common economic and political affairs and their joint

How do you feel about such an exploratory convention?

General Gruenther. I feel that the bringing together of representatives of the NATO nations is desirable.

Senator Humphrey. Do you think it would be helpful in terms of political unity of our NATO pact countries?

General Gruenther. Yes; I think any decision that would improve mutual understanding of the problems of the NATO nations would

be helpful.

You know, Senator, they had a meeting of NATO parliamentarians in Paris last July. And at that time the Senate schedule was such that you were unable to send anybody. The House sent six people. It was regrettable that the Senate was unable to send anybody. About 150 to 165 were able to attend and I think it did a lot of good. As I recall, the Canadians sent about 20 to 25 members. I think anything along that line is all to the good.

Senator HUMPHREY. This would be one way to strengthen the po-

litical aspects of NATO.

General Gruenther. Yes. And just the exchange of views is valuable.

At the meetings last July, they discussed some of their common problems, and I thought it improved mutual understanding.

## MILITARY AID TO NATO EUROPE

Senator Humphrey. We have been concerned about military aid which Senator Smith directed your attention to.

General Gruenther. Yes, sir.

Senator Humphrey. I think the problem, as I see it, is that the military aid question relating to NATO has become embroiled in the military aid relating to a lot of smaller countries around the world; and the case for NATO, in the American public, is not being adequately stressed.

I think that we feel this is an accomplished fact rather than a continuing problem. I have very strong feelings about reducing some military assistance in some areas of the world. I happen to believe that in some of these regional areas in the Middle East and over in the Far East, they are more interested in fighting each other than they are standing in resistance to the Soviet.

But I think what has happened here in Congress, at least from mail which I get from my constituents, is that they just blanket all military

assistance in and say cut it.

General Gruenther. Yes.

Senator Humphrey. I think we must emphasize making a special

case for the continuity of the NATO program.

General GRUENTHER. Of course, I recognize why some people object to parts of this program. This is one of the penalties we pay as a leader in our alliances. Alliances have many disadvantages; and for a strong and fairly rich nation, they create many irritations. But I remain absolutely convinced that alliances are necessary. I am also convinced that, for our own survival in this type of competition, we must develop our alliances and make them more effective. And aid is one of the prices we pay.

I also feel that the additional security we get through aid to our allies complements our own security program and enhances our military posture. I would like to be able to feel that this would be the last year, but I am just afraid that is not the case; I am afraid it is

going to be a continuing problem.

#### STRENGTH OF AIRPOWER

Senator Humphrey. What are we going to do, General, about these conflicting statements about the relative strength of airpower between the U. S. S. R., its satellites, and the United States and its allies? Every day there is a conflict of evidence. I think part of the disillusionment here in the United States over foreign aid is due to the feeling that we have spent so much already, and we are not doing as well as we ought to do. Also, the effort in the Western European areas is not too productive, and maybe we ought to concentrate it all on ourselves.

General GRUENTHER. Yes. Airpower consists of several elements, but the one that gets the headlines is the plane itself.

Senator Humphrey. Yes.

General GRUENTHER. Effective airpower needs a number of assets, including not only good planes but also good bases. I want to be certain that we keep a propr perspective and that we continue to keep our bases active. Fifty years ago military strategists believed that a force operating on interior lines had a great advantage. This principle does not apply in an air war today, because, thanks in large part to our alliances, we have been able to place bases very advantageously,

In spite of the fact the Soviets are putting a tremendous effort into long-range airplanes, and in spite of the fact that their planes are improving, as long as we are able to maintain a base syste mand keep our modern planes on these bases, we will have the capability to cause them

a terrific amount of destruction.

And so, while I cannot answer your question as to why there are conflicting statements, because individual opinions frequently differ, I do say that any comprehensive discussion of airpower should consider not only the planes but also the base system from which the

planes operate, because a system of bases that surrounds a nation

makes that nation's air defense problem very difficult.

Conversely, they are not able to surround us yet. If they could put bases here and here and here [pointing] they would put us at the same disadvantage. But geography has not been very kind to them and they are always going to operate at a certain disadvantage. [Deleted.]

### FULL AUTHORIZATION OF FUNDS NECESSARY

Senator Humphrey. I just have this last question, relating to our foreign-aid bill. I want to get it from you, in whom we have great confidence.

The funds in the foreign-aid bill for NATO or for the Western

European alliance—do you consider those the minimum funds?

General GRUENTHER. I do, definitely.

Senator Humphrey. Are those funds that are in the bill less than your own estimates?

General Gruenther. Very much.

Senator Humphrey. And you would feel that any reduction in those funds——

General Gruenther. Would be very serious.

Senator Humphrey (continuing). Would jeopardize your operation.

General Gruenther. Yes; I do.

Senator Humphrey. I wish you were still going to be there, General, even though the man who is going to succeed you is a wonderful Minnesotan.

The CHAIRMAN. Senator Mansfield?

Senator Mansfield. Mr. Chairman, all I want to say is that, as always when General Gruenther comes before us, it is an education just listening to him. I have no questions.

The CHAIRMAN. Senator Long?

### STRENGTH OF NATO FORCES

Senator Long. General Gruenther, it is good to see you again. I recall when I had the opportunity of visiting you in Europe about 1952, you briefed us on the situation there. At that time you were very optimistic about the possibilities of building up a defense.

General Gruenther. Yes.

Senator Long. Do you feel that the NATO forces have any prospect of actually withstanding an all-out assault by the Soviet Union on

Western Europe?

General GRUENTHER. When we have the German contribution and when we have our forces fully effective, when we are able to spread advanced weapons to areas like this, we think we can successfully withstand such an attack.

Senator Long. Do you have any target date or any point in mind

when those things would materialize?

General GRUENTHER. Yes. [Deleted.]
At this stage in technological development long-range airpower has a decided advantage over air defense, and we have planes that are here and here and here, that can today roam almost at will over here.

Five years from now that may no longer be possible, but we think we have this capability today.

### UNITED STATES MILITARY STRENGTH

Senator Long. Some time ago, Winston Churchill made a statement which impressed a lot of us. He said that the only thing that really saved Western Europe from being overrun and engulfed by the Soviet

Union was the American atomic capabilities.

And much of what I heard and read during the early stages of this NATO program was that we were relying upon the fact that we had airpower and atomic superiority, so that if war did break out, Russia would be very reluctant to attack Western Europe because she would have to fight the United States. Russia could overrun Western Europe, but she would have the United States to fight, and she would hardly be able to win in an atomic war against the United States.

So far she seems to have made a lot of headway in overcoming our

atomic superiority, has she not?

General Gruenther. Yes.

Senator Long. And from some of the reports we hear, it looks as though she may be pretty well along the way toward overcoming our superiority in airpower.

General GRUENTHER. Well, that is possible. But whether or not that particular conclusion may be accepted, I think they are making

great strides in developing airpower.

Senator Long. Here is a point that occurs to me. Let's go back to around 1950 or 1952. At that point Russia was in a position to overrun Western Europe.

General Gruenther. But they would have lost the war.

Senator Long. But she would have had to fight an atomic war against the United States.

General Gruenther. That is right.

Senator Long. Yet the very elements that would have assured the ultimate have been dissipated. I do not mean by our not making the effort, but by her overcoming the lead that we had; is that not correct?

General Gruenther. Here is the way I see it, Senator. At some time in the future, the Soviets will have a capability of launching an attack of tremendous destructiveness against the United States. I think we will continue to have a similar capability against the Soviets. I do not know where things will stand by 1965, but I think we must continue to maintain our capability. For our own interests and for important psychological reasons, I think it would be a mistake to rely solely on that retaliatory power. Because some Europeans would think our attitude was, "Well, don't worry; we will come back and liberate you." They have been liberated once, and they are not very interested in another liberation. So, even if you could prove mathematically that a war could be won by airpower alone, based in Rapid City, S. Dak., it would be the wrong way to develop unity in NATO to fight the cold war.

### THE SOVIET THREAT

Senator Long. When I was over in Europe some years ago, I was surprised to find that Europeans were not nearly as much worried about a war as we were. We felt that war was imminent, and they did not feel about it that way at all.

Is that still the same situation?

General Gruenther. I think that we see the Soviet threat as a greater danger than do most Europeans. If you live at the base of Vesuvius, you know the danger is there but you don't worry constantly about it. Europeans know they are under the gun but like the people who live on the slopes of the volcano, they seem to accept the danger with less outward reaction.

Senator Long. I get the impression when the French send those troops to Algeria, they feel they are behind a shield of the United States Army. Navy, and Air Force; if Russia moves, the United States will move. So France feels secure about stripping her forces.

General Gruenther. I do not think France feels secure about moving her forces from Europe, Senator Long. She is confronted with a serious situation in Africa, and she has had to make a serious decision as to what to do. On the other hand, I think it is fair to say that the free world depends very heavily on the United States. I think that is unquestionably true.

#### MUTUAL AND COLLECTIVE EFFORT

Senator Long. Here is one point that concerns me. From some of your testimony before the committee, I wonder if we are giving these people in Europe the impression that we are really more interested in saving them from being engulfed by the Soviet tide than they are themselves in being saved. It seems to me we should make it very clear to them, while we want to save them and we believe it very much in our interest to do so, that if they do not want to make the effort themselves, we will just have to be content to see them go under. I do not know how otherwise we can expect to make those people make the effort necessary. If we are just going to go in there and pick up the check every time they slacken off on us, it appears to me they will just back off and let us pay the whole bill.

General GRUENTHER. I think that principle, the principle of mutual and collective effort, Senator Long, has been guiding the United States Government, both in the previous administration and this. I do not think there is anybody who disagrees with that. In other words, I am very strongly in favor of an alliance system. That is part of my philosophy. But I do not carry it so far as to say, "No matter what country A wants, give it to them regardless of what effort they put

forth themselves."

So you and I are in agreement on this, and I know it has been that way as long as I have been associated with NATO under both the present and previous administrations. The differences of opinion develop on the question of how this general policy is to be implemented.

### BILATERAL AGREEMENTS

Senator Long. Here is another problem which occurs to some of us: You make agreements with foreign countries contingent upon this Government and their government carrying through what both sides propose; is that correct?

General Gruenther. NATO does not make any agreement on aid at all, Senator. If by "you," you mean NATO, we do not make any

agreements.

Senator Long. Someone does. Who does?

General Gruenther. Well, agreements are made by the United States Government.

Senator Long. I have the impression, for example, that Germany is undertaking to raise a certain number of divisions.

General Gruenther. Yes.

Senator Long. She is expected to. She may or may not.

This country is expected to send a certain amount of arms and equipment over to Germany. There apparently must be some sort of agreement or some sort of understanding. We have not ratified it here, but perhaps you could clarify my thinking on the subject as to just where do we stand on that.

On what basis do we feel they are going to raise a certain number of divisions, and on what basis do they feel we are going to send them

a certain number of arms?

General GRUENTHER. Well, that is arranged by a bilateral agreement between the United States and the country involved, in every case, but it is not done by NATO.

Senator Long. It is not done by us in the Congress, because so far

as I know, we have not acted on the agreement.

General GRUENTHER. Well, the people who can tell you most about that are sitting right here. I would think that probably Mr. Cutter

knows more about it than anybody else present.

Senator Long. I do not want to have the details. All I wanted to establish was that there is apparently a tacit agreement, or perhaps it is an actual written agreement, but that it is not an agreement that is ratified by the congresses of the two countries. It is not ratified by this Congress and not ratified in the sense it is binding on the other country; is that not correct?

General Gruenther. I will make this statement, and I would like

for Mr. Cutter to correct me if I am wrong.

The Congress passes an appropriation for some military assistance items. The United States has a bilateral agreement with Country A and that is an agreement in which the United States provides for the protection of its interests. Similarly the other country provides also for the protection of its interests. And it involves all such things as what they expect to get. The agreement is carried on from year to year, as I understand it.

You ask specifically about the German agreement. It is my understanding that an agreement has been negotiated. I do not know whether or not congressional action is required on each bilateral agreement, but I think that these agreements are executive-type agreements,

and each one does not have to be ratified by the Senate.

I would like to give Mr. Cutter a chance to correct what I have said.

because I am out of my field.

Senator Long. I would like to get at a step prior to that, however. I would like to get at the steps where we stand right now with regard to this authorization. What sort of commitment do we have, and what sort of corresponding commitment is there on the part of the other country, that if we appropriate this money for Europe, for example, the North Atlantic Treaty Organization, that they are going to do certain things? Do we have any agreement from them, if we do this, they are going to do certain things?

In other words, to what degree can it be argued that we are failing in some commitment that this Nation has made, in the event we fail to appropriate this money?

General GRUENTHER. I think Mr. Cutter can handle both of those.

### SECTIONS 141 AND 142 OF THE MUTUAL SECURITY ACT

Mr. Cutter. Senator, all military assistance is dependent upon the execution of an agreement of the type contemplated by section 141 and section 142 of the Mutual Security Act. That is a fairly long section. I can read it into the record if you would like to have me.

Senator Long. Would you just give us a general idea?

Mr. Cutter. It provides in general that no assistance shall be furnished to any nation under this title, which is the portion of the act which deals with military assistance, unless such nation shall have agreed to join in promoting international understanding, shall take such action as may be mutally agreed on to eliminate causes of tension, fulfill the military obligations, if any, which it has assumed **u**nder multilateral or-

Senator Long. What I am seeking to determine is, prior to that point, prior to this appropriation, what agreement, what commitment, have we made or has anybody made?

Mr. CUTTER. These agreements have all been made with every recipient of military assistance as a condition precedent of getting any of it, in past years; and those agreements are continuing agreements. Senator Long. What commitment do we have for the future that

the Congress will appropriate money for?

Mr. Cutter. We have no commitment. We are subject to the

action of the Congress.

Senator Long. So actually, this appropriation would be the basis upon which you would make further agreements to furnish additional equipment?

Mr. Cutter. No. We would merely make advances under the exist-

ing agreements.

### UNITED STATES DEFENSE FORCES

Senator Long. I have heard it testified repeatedly, General Gruenther, that the amount of money we spend in the mutual assistance program does not at all reduce the amount of funds that we need for our own American defense forces; is that statement still correct?

General Gruenther. We have an overall defense problem. In some areas we have allies whom we assist and who assist us in that overall defense problem. Our forces and our allies' forces are determined by the job they must accomplish since it is the combination of our own and our allies' forces that is essential. I think it would be dangerous to suggest that our mutual security program reduces defense requirements for United States forces. I look on defense as an overall problem, one for example in which the defense of this area [pointing] is inextricably a part of the problem of the defense of the United States.

Senator Long. Perhaps I am unjustly binding you to another witness' testimony. But General Bradley testified before us from time to time, and certainly before the Armed Services Committee and before the Appropriations Committee, and when someone would say, "Well, now, can we economize on our own forces by the funds that we spend on Europe?" his reply was, "No; you really could not regard the appropriations for the mutual aid program as in any wise reducing our own defense requirements."

And I have never heard that testimony disputed.

I was just curious to know whether you agreed with that. General GRUENTHER. I would not dispute that testimony.

Senator Long. You feel that we need just as much money for our own Army, Navy, and Air Force, as we would need if we did not have

this mutual aid appropriation at all?

General Gruenther. Yes; indeed, assuming our mission or objectives remained unchanged. In fact, under this assumption, we would need considerably more funds for United States forces if this mutual security program did not exist. The alternatives would not be very pleasant in terms of accepting further Soviet advances.

Senator Long. Yes. [Deleted.]

### UNITED STATES BASES IN THE NATO AREA

Senator Long. One other thing that concerns me. I wondered whether we were rushing too fast on some of these agreements. noticed over in England, we had an agreement originally with them that we would pay 60 percent of the cost of an airbase, they would pay 40 percent, and they would furnish the land. That was in regard to the first few bases that were improved for use by our forces.

But then, subsequently, rather than wait until we could get an agreement with regard to the others, the forces wanted to rush ahead

and construct additional bases without any agreement.

Do vou know what kind of ultimate English contribution we got when we built those additional bases without an agreement as to what the British Government would contribute?

General Gruenther. I cannot answer that, sir. That was handled as a United States-United Kingdom matter, and I am not familiar

with that.

Senator Long. It seems to me we would have had a much better deal if we had waited and acquired an agreement before we rushed ahead and spent money without any agreement. Would that not seem logical?

General Gruenther. I am unable to comment on it. I just do not

know anything about that problem, sir.

#### BRINGING RUSSIA INTO NATO

Senator Long. I saw where Winston Churchill made a speech, which was not carried in the headlines but I regarded it as very significant, to a German audience, advocating that Russia be included in the North Atlantic Treaty Organization.

I am sure that came to your attention, did it not? General GRUENTHER. Yes, it did. That was t That was the way some of the press interpreted it. But that was not an accurate account of what He said, "I hope that the attitude of Russia will change so that they would become eligible for membership in NATO."

His wish was for the leopard to change its spots. It was misinterpreted as Mr. Churchill's hope that the Soviets would be invited to

join NATO. [Deleted.]

#### MUTUAL AND COLLECTIVE EFFORT

Senator Long. It seems to me that we should let people know we are willing to fight as allies and to put everything we have into it, and we have a lot more to offer than all of them put together. But, at the same time, if those people feel they do not care to have us associated in defending them from a nation which has overrun half of Europe already, then they can take the risk.

Does it not occur to you that perhaps that might be a worthwhile attitude to take? I think it is going to cost us far more if we are going to make them think it is more important to us than it is to them that they are going to be saved.

General Gruenther. I think we should not let them think that. I think an alliance like this can exist only on the basis of mutual inter-

est and mutual confidence.

Senator Long. Well, the best approach I ever saw made, as far as being an ally was concerned, was the approach of the Turks. They wanted us as an ally because they were willing to fight the Russians, and they wanted somebody to count on and be by their side when they did fight them.

That approach has a lot of appeal to me. The idea of telling them, "Folks, we must save you, and we are afraid you won't fight, but maybe you will fight if we come in as your ally," does not have too much

appeal.

Maybe if we tried to make them have a little more initiative in getting us to come into this thing, and put up more, we would make

more headway at less expense to ourselves.

General Gruenther. I agree, Senator, but I think that is the policy of the Government. I do not think the United States goes about saying, "Dear country A, we want to save you. We don't care whether

you want to save yourself or not, but we want to save you."

I think the attitude of the United States, at least in the North At-ntic Council is exactly what you say. You may recall that Mr. lantic Council is exactly what you say. Dulles coined a phrase, "agronizing reappraisal," which carried with it the very connotation that you are talking about. It was given a great deal of publicity at the time.

Senator Long. Well, I am not advocating at all that we pull out. But it does seem to me we ought to drive a harder bargain than we have driven up to this point—to make the other side put up more contribu-

tion themselves, certainly in line with what we are doing.

It seems to me we are offering them a lot more than they have to offer

us. Do you agree with that?

General Gruenther. Of course, in material things. But I think from the standpoint of what we are going to gain out of this, Senator, if this area [pointing] ever belongs to the Red bloc, the United States will suffer, and suffer very seriously.

Senator Long. The point I had in mind was the type of thing that occurs such as this: I was talking to an English member of Parliament. He was impressing upon me what a great favor they were doing for us.

And my response was, "If it comes down to the worst, I am just convinced we can save our country. Now, can you save yours?"

And it seems to me as though we just encourage those people to overlook that; to think that we have to save them in order to save ourselves.

General Gruenther. I would be inclined to think that your British friend was either doing a little bluffing, or that he was a very unusual one, because that is not the attitude of the average British parlia-And so, I would not be able to comment on exactly what motivated him on that.

But it is not a standard attitude, by any means.

Senator Long. Thank you very much, General Gruenther.

General GRUENTHER. Thank you.

#### CHANGE IN SOVIET POLICY

The CHAIRMAN. General, may I ask you one question?

You gave us three very impressive reasons why the Russian Government might have been influenced in changing its tactics.

General Gruenther. Yes, Senator.

The Chairman. Could it also be true that some of the Russian people themselves have a desire for more good things, and that that

impression may have gotten through to the Kremlin?

General Gruenther. Yes. I think that could very well be one the reasons. As you know, they do not have many of those things. of the reasons. On refrigerators, last year, for example, they produced about 150,000. We produced something like 3½ million. Passenger cars, last year they produced 75,000. We produced about 7½ million.

So the Soviets have a very, very low standard of living, and undoubt-

edly they would like to raise that as much as they can.

But they face a terrific dilemma on that. Their fundamental emphasis is on heavy industry, and when you take heavy industry and put a great deal of investment into that and put a great deal of investment into agriculture, two keys to further Soviet development, it does not leave much for Soviet consumer goods.

There is no question they are trying to improve that.

The CHAIRMAN. And a part of the motivation for their change in method or tactics may be a realization that they have to recognize that a whole generation has had time to come up in Russia. Do you not think there is that possibility? You live there under the shadow of it.

General Gruenther. That is right. I think that is a very likely And as you know, they have a program of education. They are making a tremendous effort to educate scientists.

The CHAIRMAN. Oh, yes.

General Gruenther. And education is dangerous for a dictatorship. The CHAIRMAN. Yes, because some of it gets back to the people. General GRUENTHER. That is right.

The CHAIRMAN. And while the Russian at the grassroots may know little about how the balance of the world lives, he is bound to get some information.

General Gruenther. That is right. And the more they increase

this educational process-

The CHAIRMAN. The more they increase the educational process, the more knowledge they will get back home.

General GRUENTHER. That is right.

The CHAIRMAN. Thank you very much, General. You have been very helpful to the committee, and we appreciate your being here. General GRUENTHER. Thank you, Senator.

(Whereupon, at 12:55 p.m., the committee recessed, subject to call.)

# APPENDIXES

### APPENDIX I

The following information was furnished by the executive branch at the request of Senator Morse on page 46.

PUBLIC INFORMATION ON THE ACCOMPLISHMENTS OF FOREIGN ECONOMIC AID

The Department of State and the International Cooperation Administration concur fully with Senator Morse's concern that the American people should be kept fully informed of the accomplishments of the mutual security program. Within the legal limitations of the Mutual Security Act [of 1954, as amended] and the funds available for information purposes, the International Cooperation Administration and the Department of State make continuous efforts to present the American people with all available facts on the accomplishments achieved

through the use of their tax dollars in the mutual security program.

The legal limitation imposed is contained in section 508 of the Mutual Security Act, often referred to as the Dworshak amendment. This states, "None of the funds herein authorized to be appropriated nor any counterpart funds shall be used to pay for personal services or printing or for other expenses of the dissemination within the United States of general propaganda in support of the mutual security program, or to pay the travel or other expenses outside the United States of any citizen or group of citizens of the United States for the purpose of publicizing such programs within the United States." This section has been adhered to strictly, and annual audits by the General Accounting Office confirm that there have been no violations of it.

The following approximate figures indicate certain of the efforts made by the ICA to report to the American people on the uses made of foreign-aid funds.

During the current fiscal year-

In excess of 260 press releases will be issued containing factual informa-

tion on use of funds:

Over 150 procurement information bulletins will be issued listing the com-

modities to be financed by ICA;

Approximately 34,000 inquiries from the public and the press in connection with the mutual security program will be handled. Approximately 60 speeches will be given by ICA officials in many different parts of the United States in response to requests. In addition, colleges, trade associations or other organized groups request briefings by ICA officials during visits by their groups to Washington and an average of two such sessions are held each week.

The International Cooperation Administration also issues the President's semiannual report to the Congress on the conduct and accomplishments of the mutual security program, and the semiannual Battle Act report in enforcement of East-West trade controls. In addition, ICA prepares and publishes and distributes a

variety of factual pamphlets. Representative titles are:

Background for Mutual Security.

The North Atlantic Treaty Organization.

Technical Cooperation in Health.

Technical Cooperation in Agriculture.

Technical Cooperation in Education.

In Time of Trouble, a case history of the emergency relief programs. Escape to Freedom, a report on the program for assisting escapees from

the Iron Curtain.

In 1955 motion-picture stock footage on technical cooperation activities was edited and assembled to make a one-half hour film of this aspect of the

mutual security program. This year a similar collection of footage was used to make the film, Strength for Peace, to report visually on the military accomplishments of the program. Both of these films are available for free use. technical cooperation film was shown on the ABC Television Network and has been shown by hundreds of individual TV stations. The military film is now being released. Many requests have been received from TV stations interested in using it as a public service.

Fact sheets on the programs of individual countries have been issued on all Latin American participating nations, and on programs on many nations in Europe, the Middle East and Asia. In cooperation with the host government, the ICA missions in many overseas countries issue illustrated reports on the progress and accomplishments of the joint programs. These reports are dis-

tributed in both the host country and the United States.

In almost all of these public information activities, the accomplishments are treated as the result of the joint efforts of the United States and the participating government. In general, it is felt that it would be wrong to attempt to separate out and specifically identify the United States contribution as a separate entity from the host country contribution. The accomplishments are the result of the combined efforts of the two nations working in partnership together.

Continuing efforts will be carried on to increase the knowledge and under-

standing of the accomplishments of the mutual security program by the American

people.

## APPENDIX II

The following information was supplied by the executive branch in answer to questions of Senator Smith of New Jersey on page 249. The answer to question No. I may be found on page 253.

"2. What has been accomplished, and what is planned for the future through the foreign military facilities assistance program, the offshore procurement program and other means, to bring into being indigenous maintenance capabilities?"

### GENERAL BACKGROUND

When the mutual defense assistance program was instituted in 1949, Soviet tendencies toward aggression made it appear necessary that military equipment be shipped from the United States to equip the forces being activated by friendly European countries. Time was considered to be of the essence, and, initially, it was thought there was no alternative to direct supply from United States sources. It was realized, however, that the productive capacity of the European industrial complex was a necessary element of any realistic plan for mutual security. An indication of what has been accomplished is found in the fact that, upon completion of presently planned efforts, ammunition production capacity in Western Europe will have been doubled and redoubled from the level existing in 1950. Europe then will be able to equal the level of ammunition output achieved in the United States during the fighting in Korea.

Two programs, offshore procurement (OSP) and the foreign military facilities assistance program (FMFAP), have made major contributions to development of the European mobilization base. A third, the mutual weapons development program, is helping European countries to devise modern weapons that are

within their capabilities to produce and maintain.

#### THE OFFSHORE PROCUREMENT PROGRAM

The most important assistance to the Europeans in their development of a broader defense mobilization base has been the offshore procurement program, initiated in 1952. Under this program, the Department of Defense has obligated nearly \$2.7 billion for military materiel required for its MDAP aid to European

The first offshore procurement orders of any magnitude were placed in the spring of 1952. At that time much of the existing munitions-production capacity already was occupied with orders that had been placed by European countries. To meet the delivery schedules insisted upon by American contracting officers required an expansion of capacity. The American orders furnished an incentive for such expansion which was achieved by adopting more modern production techniques, supplementing existing capacity, and building entirely new production lines.

Several new complete ammunition plants can be attributed to the impact of OSP, as can expansion of facilities for production of other types of military equipment including 40-millimeter L/70 antiaircraft guns and various electronics items such as AN/GRC-9, AN/PRC-10, AN/TRC-3 and 4, IFF and AN/TPS-1D. Offshore procurement orders, for example, resulted in the joint production of British-type fighters in Belgium and the Netherlands, production of the Marcel Dassault Mystere planes in France, and assembly of F-86 all-weather fighters in Italy. The largest allocations of OSP funds were for ammunition (\$1,000 million), aircraft and related equipment (\$65 million), and ships and ship components (\$300 million).

### THE FOREIGN MILITARY FACILITIES ASSISTANCE PROGRAM (FMFAP)

Surveys made by the North Atlantic Treaty Organization in 1950 revealed a serious shortage of ammunition production capacity in Europe. A remedy for part of the deficiency was readily apparent, because facilities for making the chemical components of ammunition (propellants and explosives) were not available to match capacity for manufacture of the metal components (shell cases and projectiles).

When our European allies failed to respond to this situation, the Department of Defense in 1953 established the foreign military facilities assistance program. The initial purpose of this program was to generate joint U. S.-European country effort to expand European capacity for production of propellants and explosives.

Although complete balance between capacity for production of the metal and chemical components of ammunition will not be achieved by completion of presently funded projects, European capacity for production of propellants and explosives will have been increased several times compared to 1950. The countries in which the assisted plants are located have financed about one-half the cost of the new capacity, the United States the other half. (Fifty-seven million dollars was obligated by the United States in fiscal years 1954 and 1955.) The foreign countries have agreed to keep available for use in an emergency this new capacity and all like existing capacity. They also have agreed to make the output of the new capacity available without discrimination to other European countries.

Consideration is given within this program to establishment of production capacity for the most modern-type munitions including missiles and missile systems.

Increasing attention is being given to the development of the major overhaul facilities needed to keep operable the \$12 billion of military materiel delivered to friendly countries by the United States through the MDAP. Because of the technical complexity of much of the MDAP materiel, recipient countries lack the specialized facilities required. Through the foreign military facilities assistance program the United States and the recipient countries are collaborating in establishment of needed major overhaul facilities for fire-control equipment (for naval weapons and army artillery), tanks, jet aircraft, and naval ship modernization and repair.

#### THE MATERIEL PROGRAM

Through means of bilateral agreements, originally initiated prior to the foreign military facilities assistance program, arrangements have been made for the installation and regional use of military jet engine overhaul facilities in Europe. Bilateral agreements have been made with the Netherlands for overhaul of J-35 and J-65 engines in the KLM facility; with France for overhaul of J-33, J-35, and J-65 engines in the AIA facility at Casablanca; with Italy for overhaul of the J-47 in the FIAT facility. In addition, a limited facility was initiated in Japan for the overhaul of J-33, J-35, and J-47 engines, which is being used primarily for the overhaul of United States Air Force engines but is expected to be utilized for engines of other countries as the workload develops for them. Under these agreements the United States provides special tools, technical assistance, and bin stockages of spare parts. Regional use of these facilities is encouraged through the MDA programs and in the North Atlantic Treaty Organization.

#### THE MUTUAL WEAPONS DEVELOPMENT PROGRAM (MWDP)

The mutual weapons development program was established in 1953 to increase the defensive capabilities of friendly nations by accelerating the devel-

opment of selected advanced type nonnuclear weapons which can be produced within the economic framework of a country and operated and maintained

by that country.

During 3 years of the MWDP, the United States has jointly participated in 81 projects with Belgium, France, Italy, the Netherlands, Norway, and the United Kingdom. Funds amounting to \$65 million (59 percent of the costs of the projects) have been obligated on these projects by the United States, while participating countries have put up \$44 million.

A review of the 33 fiscal year 1954 projects reveals the successful completion of 6 projects, 12 additional projects will be completed by June 1956, 11 projects are showing results but need additional time for completion, and 4 projects have been determined to be unpromising and have been or are being

canceled.

It is too early to expect definitive results to be shown on the 31 fiscal year 1955 prrojects, in which the United States has participated for less than 1 year. Progress is considered satisfactory, but at least 6 months additional project

life is necessary before results can be positively reported.

Developments under this program will be available to help modernize the NATO forces. The program has stimulated native capability for self-sufficiency, while at the same time insuring to the United States the benefits of additional inventive talent and research and development effort.

#### CONCLUSIONS

American efforts have had a major impact on the European defense mobilization base—the capability to produce and maintain in Europe the military material required to support combat operations in the region. This conclusion is inescapable, even though comprehensive statistical proof is lacking.

Today Europe can produce a full line of ammunition of the types required for weapons furnished under the MDA program. Many of the weapons themselves also are in production in Europe. European shipyards now build the most advanced types of naval minesweepers; modern fighter aircraft are in production; and there is an up-to-date capability for production of complicated electronic equipments. Acceptable combat vehicles are in production, and a variety of transport and special purpose vehicles are being manufactured.

Munitions production capacity in Europe today exceeds output, and this condition will become more pronounced as deliveries are completed under outstanding orders. Recognition of this condition has prompted European governments to seek additional OSP orders from the United States in order to maintain their plants. Although requirements under the MDA program have largely been met, an effort is being made to procure offshore the smaller remaining requirements in such a manner as will help foreign governments through the transitional period in which they must assume the burden of continued opera-

tion or place essential specialized plants in standby status.

The foreign military facilities assistance program is successfully breaking bottlenecks that would prevent European ammuition production from being fully effective in a time of emergency. The feasibility of further large expansion is limited, however, by the availability of raw materials within the region. Benefits can be expected by the continuance of United States assistance in the establishment of major overhaul facilities for United States types of military equipment and specialized facilities needed to produce advanced types of weapons, such as guided missiles, that come into being through the mutual weapons development program or developments independently undertaken by friendly governments.

Note.—Answers to questions II and II were of a classified nature, and are on file with the committee. The answer to question IV follows:

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The administration draft bill (beginning on line 20 of page 21) provides for "a more equitable pricing system for transactions between the military departments and the mutual defense assistance program." What are the implications of this system in regard to MDAP reimbursements to the services? Will these reimbursements be reduced? If so, was the extent of the reduction taken into account to computing the requested authorization for fiscal 1957?

The present program which forms the basis for the request for authorization of funds for fiscal year 1957 has not taken into account the proposed change in the definition of value for two reasons. First, we could not predicate our pro-

gram planning upon a proposed change in the law which might not meet with congressional approval. Rather, we felt that we must follow the current statutory definition of value as prescribed by the Congress. Second, the proposed amendment will only establish the general principles on which the detailed new definition of value will have to be based. A change such as this may affect thousands of items, and the process of formulating workable criteria, taking into account age and condition of the items, is not an easy task. For example, because many components are common to more than one end-item, the establishment of standard prices for those components is a requisite before the end-item standard price may be computed.

Indeed it is the realization of these difficulties which has dictated the form of the present amendment. You will note that, even with the amendment, the present definition of value stands intact, and that the new language is added on at the end directing the Secretary of Defense to move to the new definition of value at the earliest practicable date. A draft of such new general pricing regulations is in the process of being coordinated by the Office of the Secretary of Defense with the service Secretaries. Although it is not possible at this time to name a particular date by which the new regulations will be completely implemented, we are hopeful that we will be able to issue the new general regulations shortly after the amendment becomes law and substantially to implement

these general regulations before the beginning of fiscal year 1958.

The new language, when implemented by regulations to be issued by the Secretary of Defense, will affect only the common items yet to be delivered at the time the new regulations go into effect. Such common items would be those (1) ordered by the mutual-defense assistance program from the military departments against prior year appropriations or (2) common items included in the fiscal year 1957 program to be ordered from the military departments with fiscal year 1957 funds. The new pricing will not apply to offshore procurement, Navy shipbuilding, repair and rehabilitation, training, packing, crating, handling and transportation, infrastructure, facilities assistance, mutual weapons development, support of International Military Headquarters, administrative expenses, military soft goods and construction (formerly direct forces support) and the like. Moreover, the new pricing policy will not pertain to or influence the price of those common items which are being currently procured from manufacturers by the military departments for delivery to the mutual-defense assistance program. It will not apply to items to be supplied from service stocks which do not deteriorate, that is, ammunition, spare parts, or to modern items of equipment recently acquired.

The value of undelivered common items of all types from prior year appropriations is estimated to be \$3.4 billion and the estimate of common items in the fiscal year 1957 program is \$1.9 billion, for a total of \$5.3 billion. It is impossible to calculate what portion of this total will be affected by the new pricing formula or to what degree the price of those items which are subject to their application. Furthermore, it is not possible to estimate when the items that are affected will be delivered: consequently the savings which will develop will accrue over a relatively long period of time. In any event, it is not expected

that the savings in fiscal year 1957 will be significant.

Close attention will be given to the effect of the institution of the new pricing legislation and implementing regulations. By the time of the presentation of the fiscal year 1958 program, Defense Department spokesmen will be in a position to project an estimate of future effects of the change in the definition of value.

It is important that the record be clear that while the effect of the change in definition would be to enable the mutual defense assistance program to obtain a limited quantity of equipment and materiel at a lower price than has heretofore been the case, there will be no net savings in future programs insofar as the Government as a whole is concerned. These are transactions between military departments and the mutual defense assistance program. The principal purpose of this amendment is to provide a more businesslike basis for transactions between the military departments and the mutual defense assistance program, in that the mutual defense assistance program will pay the services for the fair value of such equipment. When the new definition is fully implemented, the effect moneywise will be a reduction in mutual defense assistance budget estimates and a corresponding reduction in reimbursements accruing to the military service appropriations. This reduction in reimbursements will in turn be taken into account in future military service budget estimates.

### APPENDIX III

The following information was furnished by the Comptroller General of the United States at the request of Senator Green on page 781.

> COMPTROLLER GENERAL OF THE UNITED STATES, Washington, June 7, 1956.

Hon. WALTER F. GEORGE, Chairman, Committee on Foreign Relations, United States Senate.

DEAR MR. CHAIRMAN: During the hearings before your committee on May 21, 1956, Senator Green suggested that we submit for consideration of your committee language to carry out our suggestion that appropriations for mutual security be stated on an accrued expenditure basis, that is, on the basis of goods to be delivered, or services to be performed, during the fiscal year, rather than on the basis of obligations to be incurred.

As we testified during the hearings, we believe that it is too late to adopt the accrued expenditure basis of appropriation for the fiscal year 1957. A recasting of fund requirements would be required and substantial changes would be necessary to effect the accrual accounting and cost budgeting practices needed to support appropriations stated on an accrued expenditure basis. We do not believe that it is possible to bring about these changes within the relatively short period of time remaining before adjournment of Congress. To endeavor to adopt an accrued expenditure basis of appropriation before the proper groundwork is laid could only lead to confusion and unsatisfactory results.

In the event your committee desires that appropriations for mutual security be stated on an accrued expenditure basis beginning with the fiscal year 1958, it is suggested that language be included in either the committee report or in the Mutual Security Act of 1956, along the following lines:

"Beginning with the fiscal year 1958, appropriations to carry out the Mutual Security Act will be determined on an annual accrued expenditure basis, and requests for authorizations and for funds will be made accordingly. The Bureau of the Budget, the International Cooperation Administration, the Department of Defense, and the General Accounting Office should work in close cooperation in developing budget, accounting, and fiscal procedures necessary to support the accrued expenditure basis of appropriation, and in developing, for consideration by the Congress, the changes in existing law necessary to accomplish the objective."

If we can be of any further assistance in this matter, please do not hesitate to communicate with us.

Sincerely yours,

JOSEPH CAMPBELL. Comptroller General of the United States.

# APPENDIX IV

The following information was furnished by the Comptroller General of the United States at the request of Senator Smith of New Jersey on page 787.

> COMPTROLLER GENERAL OF THE UNITED STATES, Washington, June 7, 1956.

Hon. WALTER F. GEORGE, Chairman, Committee on Foreign Relations, United States Senate.

Dear Mr. Chairman: During the hearings before your committee on May 21, 1956, we were requested to furnish comments on eight questions relating to the mutual security program, and the legislation now pending before your committee. Our comments on the questions are enclosed. If we can be of any further as-

sistance, please feel free to call us.

Sincerely yours,

JOSEPH CAMPBELL. Comptroller General of the United States.

Enclosures.

1. Question.—Secretary Wilson told us he is going to treat MDAP like a "fourth service" for fiscal purposes. What is the significance of this change in concept

from what has been the practice in the past?

Answer.—The "fourth service" concept, insofar as fiscal operations and procedures are concerned, came about as a result of the internal reorganization of the Office of the Assistant Secretary of Defense (International Security Affairs) which transferred the comptroller functions to that office from the office of the Assistant Secretary of Defense (Comptroller). The purpose of this transfer was to provide the Assistant Secretary of Defense (ISA) with the means for effectively dealing with his financial management problems. Responsibility for the preparation of the military assistance program budget now rests entirely with the Assistant Secretary of Defense (ISA). Under this arrangement the budget for this program is subject to a similar review as that made for the regular appropriations of the three military departments by the Assistant Secretary of Defense (Comptroller). We believe that this realinement should result in a more effective coordination between program control and financial administration.

2(a). Question.—What is the significance of the new pricing policy which is

proposed for MDAP?

Answer.—It is not feasible to fully evaluate the effect or significance of the new pricing policy at this time. We have been unable to obtain any analysis of the probable effect of the proposed change. Drafts of the new regulations are currently in process of being reviewed and coordinated within the Department of Defense. We understand that the proposed pricing policy involves the use of standard prices and the establishment of appropriate criteria for sale at prices below the standard for application to the military assistance program in the same manner as transactions are handled between the Armed Forces. We have been advised by the Comptroller, Office of the Assistant Secretary of Defense for International Security Affairs, that the new policy would enable the military assistance program to obtain a limited amount of equipment and material at a lower price than heretofore. Lower prices will result when the condition of used items and obsolescence are taken into consideration in establishing prices to be charged. However, in the actual application of the pricing policy the standard prices may properly include elements of specific costs which heretofore were not charged against the military assistance program, resulting in a higher price for certain items.

Of important significance in the proposed change to the pricing policy is the effect on operations. We feel that a consistent pricing policy permits a more effective use of financial information in the formulation of the procurement

program and in evaluating past performance.

There is still a feature of inconsistency between the pricing policy presently applicable within the Armed Forces and the proposed policy for the military assistance program. This pertains to the provision of section 545 (e) of the Mutual Security Act of 1954. Under these provisions items are considered excess for purposes of the military assistance program when such items exceed the inventory levels in the current operating and mobilization reserve stocks. Normally, in the Department of Defense, items are declared excess when they exceed the retention limit which includes economic or contingency reserve stocks as well as current operating and mobilization reserve stocks. Therefore, regular military appropriations are required to pay for similar equipment and materiel for which the military assistance program is required to pay only the reparable cost involved, if any. We realize that there may be additional influencing factors relative to this policy, however. It appears that consideration should be given to a reappraisal of all factors to determine whether a more consistent and equitable policy should be applied, even though a change of policy in this connection would result in additional charges to the military assistance appropriations.

2. (b) Question.—Have MDAP appropriations been overcharged in the past under the present valuation procedures used by the Army, for example? If so,

do you have any estimate of how much?

Answer.—The examination of the pricing policies promulgated and the amounts charged to the military assistance program revealed that such actions were generally in conformance with legislative requirements prescribed in section 545 (h) of the Mutual Security Act of 1954, as amended. The law requires that mobilization reserve items sold to the military assistance program which the Secretary of Defense has determined to be fully replaceable be priced at the cost of replacing equally good or better items. The law also provides that where the Secretary of Defense determines that the equipment and materials which are not

included in the current procurement program are furnished, the price to be charged would represent gross cost or replacement cost, whichever the Secretary may specify. In this area it was determined that reported acquisition costs adjusted for increases in price indices would represent the price to be charged. For example, in the Department of the Army, 170 percent of the 1945 prices was used. Increasing technological improvements and costs have resulted in much higher prices to be charged under the present formula for outmoded equipment and material. It is not feasible at this point in time to determine a reasonable value of the material that has been delivered and paid for in the past. However, we estimated the extent to which the prices for deliveries of these items exceeded actual costs. We believe that the application of the pricing formula prescribed in conformance with section 545 (h) of the Mutual Security Act of 1954, as amended, resulted in an estimated "overcharge" to the military assistance appropriations in excess of \$1 billion. It should be realized, however, that the effect of this "overcharge" was taken into consideration in determining the fund requirements for the regular military appropriations.

3. Question.—Is there effective control in the Office of the Secretary of Defense (OSD) over MDAP appropriations, or does OSD pretty much have to take the word of the military departments with respect to valuation, need for funding,

production feasibility, delivery schedules, and the like?

Answer.—It is our opinion that the effectiveness of control in the Office of the Secretary of Defense over the military assistance program has been substantially improved over the unsatisfactory conditions which formerly existed when the Department was required to account and report for MDAP appropriations on an artificial and unrealistic basis. The difficulties experienced in accomplishing an effective integration of a program of this size and scope with that of the regular defense procurement operations have been significant. During the period of transition and changeover, certain of the programing and funding actions were not sufficiently clarified or disclosed as to provide a full understanding by the Congress and others concerned.

We feel that the Department of Defense is gradually overcoming these prob-The recent transfer of the comptroller functions referred to in the information furnished in response to question 1 should provide the basis for better coordination between program control and financial administration. Also, the uniform pricing policy referred to in the information furnished in response to question 2 (a) will eliminate any discriminatory practices by the military departments in establishing the value of deliveries to the military assistance program. However, there still exists the requirement for the Defense Department to establish more realistic delivery schedules in the light of the capabilities of the foreign countries to meet force goals and the military departments to effect timely deliv-The degree to which the military departments effect deviations and substitutions in common-item orders, without prior approval of the Office of Secretary of Defense, limits the extent of control that can be exercised. As indicated in our recent reply to Senator Mansfield's letter of May 23, 1956, we are in the process of reviewing actions in the Department of Defense to determine the extent of control exercised in this area.

4. Question.—Does Congress have as good control over the use by the Department of Defense of "no-year funds" as it has over annual appropriations? Should this committee again authorize the appropriation of "no-year funds"

for military assistance?

Answer.—The effectiveness of congressional control over appropriated funds does not depend on the basis of whether such funds are continuing "no-year" funds or appropriated annually. This difference merely relates to the period during which the amounts appropriated can be obligated and expended. The unobligated balances of "no-year" funds are required to be submitted for further review each year, whereas the unobligated balance of annual appropriations automatically expires unless reappropriated by congressional action as has been done in the past with military assistance funds.

We realize that considerable concern is often expressed in converting annual appropriations to a "no-year" basis for fear that congressional control will be diminished. From the standpoint of congressional control, the consideration and review of the program for which authorizations are being requested are more significant than the period of availability of funds for obligation and expenditures. This feature involves the review of the degree of performance in terms of authorizations furnished by the Congress in the past, examination of the work and actions projected for the future, and an evaluation of authority being requested in consideration of past performance and resources available from prior authorizations.

The use of obligation and expenditure data has its greatest limitations for both Congress and management in evaluating program performance in an area such as the military assistance program, where there is a need for long-range, forward planning and negotiations with foreign governments. Under such circumstances, it is necessary to consider the resources already available, the requirements of our own forces, and the development of a coordinated supply program. Therefore, it is inherent in this program that congressional authority be granted for the advance planning which must necessarily precede the actual delivery of equipment and material to meet the force goal requirements. We believe, as stated in our testimony before the committee on May 21, 1956, that this objective can best be accomplished by making appropriations on an accrued expenditure basis with appropriate authority being provided by the Congress for the necessary forward planning and other program actions. If this objective is adopted as a matter of congressional policy, it must be recognized that it would not be feasible to effect implementation prior to the fiscal year 1958. feel that "no-year appropriations" should be authorized in the interim to provide a proper basis for the Congress, during consideration of the appropriation act. to make the appropriations available either until expended or for a limited period of time. It is our opinion that this is administratively desirable and should not diminish congressional control of the program.

5. Question.—Would you comment on the request by ICA for authority to stretch out the time for obligation of 25 percent of nonmilitary appropriations

by an extra 3 months?

Answer.—Proposed new section 550 of H. R. 10082 would continue available for 3 months beyond the fiscal year for which appropriated, an amount equal to 25 percent of the funds authorized for defense support, development assistance, technical cooperation, special assistance in joint control areas and the proposed new section 420—Special Authorization for the Middle East and Africa.

H. R. 11356 approved by the House Committee on Foreign Affairs omits the continued availability in respect of funds authorized for development assistance

and the proposed new section 420.

Agency Basis for Request

We were informed by ICA that the requested extension of availability of the aforestated funds is intended to apply only to project type aid and is founded

on the following considerations.

1. At or near the close of the fiscal year negotiations for a number of projects have reached the point where agreement has been reached as to the propriety of the projects and their technical elements but additional time is required to accumulate factual data necessary to properly document a project agreement or in some cases to obtain acceptance by the recipient country of certain terms which ICA believes are advantageous to the United States and which would give greater mutuality to the project in relation to the United States participation.

2. Other projects have been entirely agreed upon at or near the close of

the fiscal year except for refinements in language.

Another factor in the agency's request is that for the past 3 years appropriation legislation has not been enacted until August or September with the result that 2 or 3 months have been lost in rearranging the annual programs on the basis of the funds actually appropriated. While continuing resolutions have provided funds during the interim period from the beginning of the fiscal year to the enactment of appropriation legislation, the agency has as a matter of policy refrained from finalizing its programs and negotiating new projects during this period.

ICA further justifies its request on the ground that these project agreements by reason of the nature of the activities which they represent, their negotiation with foreign governments, and their importance in the foreign policy of the United States, are different from and more complex than obligating agreements of most other Federal agencies. In addition it claims that in other agencies dealing in agreements of comparable complexity, the funds involved are gen-

erally not annual appropriations as is the case of ICA.

ICA officials informed us that in certain countries, particularly in the Near East and Africa and Asia areas the timing of negotiations with the foreign governments on individual projects is dictated by political considerations as determined by the Department of State. In these cases even though ICA may have its program for the respective countries developed in the early part of the fiscal year it frequently cannot initiate negotiations with the foreign governments on

certain projects until late in the fiscal year. As a consequence, the time remaining before the close of the fiscal year is not sufficient to accumulate all the factual data necessary to firm up the arrangements for the project. ICA also states that in some instances it finds that the monetary considerations and other aspects of participation contemplated by the foreign country are sometimes less than ICA believes are consistent with the United States participation and with the importance to the economic development of the country that ICA attaches to the project and that additional time would be helpful in working out agreement on these matters.

ICA stresses the significance of political determinations in the timing of project negotiations by pointing out that whereas the proposed amounts of aid for certain countries were known to the respective foreign governments through disclosure in the annual budget presentation and congressional committee reports for previous years, these amounts are not so disclosed in the presentation for fiscal year 1957. The agency expressed the belief that this strengthens the political position of the United States in arranging for the financing of development projects.

ICA proposes to consider as eligible for obligation during the 3 months extended period the estimated amounts relating to specific projects which the field missions report as being in the process of the negotiation at the close of the fiscal year. No other projects will be eligible for obligation from the funds to be continued available. As to any of the reported projects not obligated during the extended

period the related funds will lapse.

With respect to program administration generally, we were advised that the Director plans to accelerate the negotiations with foreign governments by advancing the dates for the presentation of annual programs by the field missions and by approving selected projects prior to the enactment of the appropriation legislation.

#### Comments

The request of ICA is unique in Government financing legislation in that it proposes to make annual appropriations available not only for the year for which appropriated but for a portion of the succeeding year. As such it modifies the accepted precepts of accountability for annual appropriations, necessitates special accounting and budgetary procedures and reporting and by virtue of such special treatment may tend toward more difficulty in understanding the financial operations of the agency. In addition it would establish a precedent for similar requests in various forms throughout the Government which may lead to a gradual breakdown of the concept of annual appropriations and possible deterioration of congressional control of funds. We believe that these considerations should be properly weighed in reaching a decision on the agency's request.

It appears the agency's request emphasizes heavily the tie-in of political determinations with the timing of obligations for project type aid. As to this we are not in a position to comment on the need or justification for continued availability of funds. Regarding the other reasons advanced by the agency, we believe that sound program planning, partly evidenced in the agency's contemplated acceleration of program presentation and approval noted above, will per-

mit the completion of orderly negotiations within the fiscal year.

In our opinion the request for extended availability of funds is directly related to the question of whether the annual programs proposed by the agency have been beyond the capacity of the agency and the recipient countries to get underway during the fiscal year for which the funds are appropriated. In our statement of May 21, 1956, to the committee and in reports to the Congress and the agency we have expressed the belief that such has been the situation. This belief derives from the fact that the obligating bases of ICA differ from those of most other agencies in that its obligations are for the most part based on agreements with recipient countries and thus still require outside contracting preparatory to any tangible implementation. Because of this we look upon the annual appropriations as contemplating that the activities underlying the appropriations will be initiated during the year at least to some point beyond the execution of obligating agreements. ICA on the other hand contends that the objectives of its annual appropriations are achieved if the agency is able to execute agreements with the recipient countries for the activities constituting the programs on which the appropriations were based. This difference in views regarding annual appropriations, and the significance of political determinations in the administration of project type aid, seem to us to be the paramount considerations in appraising the agency's request.

In our discussions with ICA officials we suggested that projects which could not be obligated within the fiscal year be considered as activities of the succeeding year and obligated against funds appropriated for that year. This would be in line with our view that the funds against which projects are obligated should correspond as nearly as possible in point of time with the year in which the projects are actually initiated. The agency responded that this would, apart from causing the funds allotted for such projects to lapse, disrupt the programs scheduled for the succeeding year and thereby defeat the purposes of annual programing. We are not convinced that it would have this effect. So long as the agency urges the continuance of such broad flexibility in the use of funds as evidenced by the statutory provisions for transfers between appropriations and for use by presidential determination, it seems to us that the whole scheme of programing must be elastic and any firm scheduling of significant projects necessarily limited.

As indicated above, we are not completely satisfied that fund availability for

obligation should be for a 15-month period.

Regardless of the above considerations, the language of the proposed provision does not confine the requested authority to project type aid as purportedly intended by the agency or set out the boundaries within which the authority may be used. As presented, the provision would permit obligations to be made for nonproject type aid in defense support (title I) and in development assistance (title II). Also, obligations during the extended period would not be limited to projects on which negotiations were in process at the close of the fiscal year. In addition the inclusion of funds authorized under title III (technical assistance) does not appear to be compatible with the political aspect of the agency's request since the types of projects in this category are generally not the basis of political determinations or individually of important monetary significance. In this respect it is to be noted that the proposed amounts of technical assistance are clearly shown for each country in the program presentation for 1957. On the other hand, the deletion of title II (development assistance) in H. R. 11356 creates an inconsistency in that this type of aid is identical in character to defense support (title I), the project type aid in each of these titles representing principally capital investment projects mostly in fairly sizable amounts and the kind which the agency has in mind as requiring the extended availability of We suggest that if the committee decides to approve the agency's request, the proposed provision be revised to define clearly the specific purposes and conditions of its use.

In the event the Congress should decide that appropriations for mutual security should be on an expenditure basis, as we suggested for consideration during our testimony before the committee on May 21, 1956, any need for a 15-month period of fund availability would disappear. We recognize, of course, that it is not practicable to convert to such a basis for the fiscal year 1957. See separate

letter of June 7, 1956, to the chairman of the committee.

6. Question.—ICA is asking in section 8 (e) of the executive branch bill for permanent authority to use appropriations for specific pubposes like contracting for custodial services abroad, paying for burials, buying insurance on motor vehicles abroad, and buying pure drinking water abroad. The executive branch explanation states that this legislation is supported by GAO. It also states that while no law prohibits these kinds of expenditures GAO rulings have required express statutory authorizations. Since these expenditures seem to be necessary and appropriate to carrying out aid programs, why have you ruled that express statutory authority is necessary, for example, to buy drinking water abroad?

Answer.—The particular provisions in question, together with the analysis thereof prepared by the executive branch, and our comments thereon are as

follows:

Subsection (a) (3): "employment of aliens, by contract, for service abroad." Executive branch analysis: "This paragraph is identical to language in the Mutual Security Appropriation Act, 1956. It authorizes the employment of aliens by contract for services abroad, and is included in view of Comptroller General rulings which appear to require express authorization to contract for certain types of services including those of a custodial and housekeeping nature. Experience has shown that services such as, for example, building care and cleaning and widow washing often can be obtained more economically abroad by contracts with local service firms and individuals."

Comments: While there is no specific statutory prohibition against the procurement of personal services for the Government by contract rather than by the

employment of persons to do such work, it is a basic concept of the administration of public affairs that the work of the Government be performed by a body of trained civil servants who are directly responsible to the Government and under its supervision. We believe the general rule is sound, and for that reason we believe exceptions to the rule, as in the present case, should be specifically authorized by law. It may be noted that although the explanation for the proposed subsection refers only to services of a custodial and house-keeping nature, the language used is broad enough to permit the procurement of any type of services abroad by contract.

Subsection (a) (9): "Insurance of official motor vehicles in foreign countries." Executive branch analysis: "This paragraph is identical to language in the Mutual Security Appropriations Act, 1956. It is included in view of Comptroller General opinions which may require express authorization for payment

of this type of insurance cost."

Comments: While there is no general law specifically forbidding the purchase of insurance by the Government, it long has been the settled policy of the United States to assume its own risks. In the case of the shipment of valuables by the Government, section 4 of the Government Losses in Shipment Act (50 Stat. 480, 5 U. S. C. 134c), prohibits the payment of insurance premiums unless authorized by the Secretary of the Treasury. Because of this long-standing policy, the accounting officers of the Government generally have not regarded expenditures for insurance as ncessary to carry out the purposes for which public funds are appropriated. (See 13 Comp. Dec. 779; 4 Comp. Gen. 690; 19 id. 211; 21 id. 928; 35 id. 391. Cf. 19 Comp. Gen. 798.)

It is pertinent to note that appropriation acts for the Department of State and Department of Defense have for some time contained similar authorizations. However, the purchase of insurance under these authorizations was permitted only "when required by laws" of the foreign countries involved. If a similar restriction should be added to subsection (a) (9), we would have no objection to its enactment as permanent legislation. Indeed, in view of the fact that the Federal Tort Claims Act does not apply overseas, we believe that consideration might be given to the desirability of carrying liability insurance on official motor vehicles in foreign countries even when not required by foreign law. In this connection, it may be noted that Government owned ICA vehicles may be used for nonofficial personal purposes under certain circumstances. See ICA Order No. 567.1, effective December 15, 1955.

Subsection (a) (11): "Actual expenses of preparing and transporting to their former homes in the United States or elsewhere, and of care and disposition of, the remains of persons or members of the families of persons who may die while such persons are away from their homes participating in activities carried out

with funds covered by this subsection (a)."

Executive branch analysis: "This paragraph is based on similar language in the Mutual Security Appropriation Act. 1956. It authorizes payment of costs in connection with preparing and transporting to their former homes the remains of persons wo die away from their homes while engaged in programs covered by the subsection. The paragraph includes necessary technical changes, and language has been added to clarify authority to pay funeral and related expenses in cases where circumstances do not permit the return to their homes for burial of persons who may die while engaged in activities covered by the subsection."

Comments: The act of June 7, 1897 (30 Stat. 86-87, 5 U. S. C. 103), contains the following provision: "That hereafter the heads of departments shall not authorize any expenditure in connection with transportation of remains of deceased employees, axcept when otherwise specifically provided by law."

In view of this statutory prohibition, specific legislative authority is required for expenditures in connection with transportation of the remains of deceased employees, and, obviously, would be required for transportation of the remains of deceased members of their families. Authority for the transportation of the remains of deceased employees and for transportation of their families has been given by the Congress in the act of July 8, 1940, (54 Stat. 743, 5 U. S. C. 103a). (See, also, secs. 916a-d, title 10, U. S. C.). Authority has been given in the act of July 15, 1939, (53 Stat. 1043, 5 U. S. C. 118f), to pay not over \$100 for burial and other expenses in connection with the last illness and death of native employees in foreign countries. However, the authority which would be granted by the provisions of the proposed subsection (a) (II) is considerably broader than that granted under the 1940 act and the implementing regulations therefor contained in Executive Order 10209, issued September 30, 1940. Under those

regulations funeral and burial expenses are not payable, nor any expense in connection with the death of a member of the employee's family. Section 911 of the Foreign Service Act of 1946 (22 U.S. C. 1136 (8), 60 Stat. 1026), and section 5 of the Central Intelligence Agency Act of 1949 (50 U.S. C. 403e, 63 Stat. 209), do authorize transportation of the remains of deceased members of families of Foreign Service and CIA employees. The proposed subsection would permit payment of burial and other expenses incident to the death of any person, or of any member of the family of any person, participating in foreign aid activities even though such person was not an employee of the United We believe a fuller explanation should be given of the necessity for the extension of such benefits to persons who may not be employees of the United States.

Subsection (a) (15) "ice and drinking water for use abroad."

Executive branch analysis: "This paragraph is identical to language in the Mutual Security Appropriation Act, 1956. It is included because of Comptroller General rulings which require express authorization to pay for ice and drinking water abroad."

Comments: Contrary to the impression conveyed by the above-quoted analysis, the General Accounting Office has not ruled that express authorization is necessary to pay for ice and drinking water abroad. The General Accounting Office and its predecessors have often refused to recognize the necessity for purchasing drinking water from appropriated funds when other safe potable water was available. Because of the differences that may exist in the criteria of potability in this country and abroad, we have no objection to the granting of permanent authority for the purchase of drinking water abroad.

7. Question.—Is there any danger of abuse in the request in section 8 (a) of the bill which the executive branch says you "informally approve" for authority to charge one appropriation initially and later shift the charge to another ap-

propriation?

Answer.—The authority requested in the proposed new subsection (f) in section 522 is intended to save ICA considerable bookkeeping effort presently spent

in accounting for certain interregional program activities.

Examples of such activities are training programs, contracts with professional organizations, the preparation of technical literature, and domestic program direction expenses. These expenses, which are incurred both by ICA and the participating agencies of the United States Government, benefit 2 or more geographical areas or 2 or more programs for which the Congress has authorized

separate appropriations.

Under the present system, in order to charge obligations and expenditures immediately to the proper appropriation account, the agency distributes each individual obligation document and disbursement voucher on the basis of the applicable cost ratio. This distribution process is time-consuming and imposes a heavy administrative burden on the limited personnel of the Comptroller's Office. The proposed system will permit ICA to charge obligations and expenditures initially in full against one appropriation account, and to reimburse this account before the close of the fiscal year from the other appropriations which should bear a pro rata share of the costs of the particular program activity.

In the past, the above category of expenses has involved a relatively small portion of appropriated nonmilitary assistance funds. The agency intends to provide a number of budgetary and fiscal controls that will include the follow-

ing features:

(1) ICA will make an initial determination of the pro rata share of costs which each appropriation will bear, such determination to be based on best available criteria of costs and relative benefits derived therefrom.

(2) The initial charge will be against the appropriation account which is principally concerned and is estimated to derive the primary benefit.

(3) The agency will reserve sufficient funds within the appropriations ultimately to be charged, in order to assure reimbursement of the appropriation initially charged. The Bureau of the Budget will be in a position to police the

reimbursement procedure through its regular apportionment function.

(4) ICA will not wait for the ultimate distribution of expenditures until the close of the fiscal year but intends to make pro rata distributions either monthly or, at a minimum, on a quarterly basis. This will afford an opportunity to ascertain whether the original criteria for pro rata allocation are still valid and, if necessary, to adjust the funds which must be reserved for reimbursement at the close of the fiscal year.

We believe that the above described procedures will provide an adequate system of fiscal control and prevent possible abuses resulting from the proposed authority. These controls should assure that program costs are charged on an equitable cost allocation basis and not on the basis of available appropriation

balances at the close of the fiscal year.

While presently the agency contemplates to use the requested authority only for interregional program expenses and related costs, the language of the proposed provision is broad enough to cover other type of transactions not now under consideration. However, the objective which the agency seeks—namely reduced bookkeeping effort—is in our opinion sound and we see no objection to the application of the requested authority to other types of activity provided that controls comparable to those proposed for the contemplated activities, are instituted.

## APPENDIX V

(The following is an exchange of letters between Senator Mansfield and the Comptroller General of the United States resulting from the testimony appearing on page 794 and following.)

UNITED STATES SENATE, Washington, D. C., May 23, 1956.

Hon. JOSEPH CAMPBELL,

Comptroller General of the United States, General Accounting Office, Washington, D. C.

DEAR MR. CAMPBELL: You will recall that at the hearing on May 21, 1956, I asked you a number of questions with the request that you make a study of the situations I brought to your attention and report back to the committee.

In your followup, I wonder if you would look particularly into these questions:

1. You stated that the Department of Defense overcertified \$400 million, which should have reverted to the Treasury. Instead of returning these funds, the Department in a letter to Representative Cannon last December stated that it would reduce its request for fiscal year 1957 military assistance appropriations by \$225 million. Is there any reason in your opinion why the Committee on Foreign Relations should not reduce the authorization request by the full \$400 million in view of the amount previously retained by the Defense Department in violation of law?

2. You will recall that I asked if you maintained a continuous review on funds expended under this program. Mr. Powers replied that "It is highly selective and does operate on a continuing basis." Does "highly selective" mean that you

just check on selected orders?

As you know, I am particularly interested in the obligation and reservation of funds during the last days of fiscal year 1956 and I asked you to find out how much, if any, of those funds, which amounted to at least \$1,300 million, were deobligated, dereserved, or in some other way were used to augment funds available during the current fiscal year. I believe that the Foreign Relations Committee should have this information for all the funds obligated and reserved during those last days and not just on a "highly selective" basis.

I am also particularly interested in any suggestions which you may have on ways in which this last minute rush to obligate and reserve can be controlled or checked, even though the "rush" date may be moved forward to April 30.

3. You discussed common item orders at some length. I had in mind to ask several questions about these common item orders which, because of the lateness of the hour, I deferred. These were based on an examination of the common item orders issued during 1955 and 1956. This shows that on 2 days, June 28 and 30, 1955, 6 orders were issued, reserving approximately \$1 billion. These orders list only general categories of items (for example, "Weapons, complete"), whereas the orders issued during the rest of the year describe the items in detail (for example, "Weapons, complete: Carbine, Cal. 30 (all Models); Rifle, U. S. Cal. 30, ML; Gun Machine, Cal. 30 (all Models)" etc.), and give the quantity ordered.

The June 28 and 30 orders also differ from other orders in that they include this sentence: "Item content of this common item order will be issued to you by ISA/OMAP under separate cover and is to be made a part of this order." The committee, I believe, would be interested in information explaining the

difference between the June 28 and 30 common item orders and the others issued during the course of the year.

I have also noted that no common item orders have been issued between June 20, 1955, and February 14, 1956. Is that an indication that we may expect

a repetition of last year's June reservations and obligations?

4. In your statement you say: "The Department of Defense has not complied on a proper basis, with the certification requirements of section 1311 or the Supplemental Appropriation Act, 1955, and the provisions of section 110 of the Mutual Security Appropriation Act, 1955, and its own implementing instructions." My attention had been called to the requirement of section 110 which provides: "Within the limits of amounts available from funds so allocated, the Department of Defense is authorized to incur, in applicable appropriations, obligations in anticipation of reimbursement from such allocations, and no funds so allocated and available shall be withdrawn by administrative action until the Secretary of Defense shall certify that they are not required for liquidation of obligations so incurred." [Italics supplied.] I have been informed that the Office of the Secretary of Defense does not have a record of deobligations and dereservations, which would seem to be required by that section. I would be interested again, if you have any remedial suggestions for this situation.

I would be most grateful if you could look into these questions and have a report prepared for inclusion in the committee's records which may go to press

within the next week.

Your appearance last Monday was most helpful. I found your comments the most lucid and informative of any I have heard on this complex subject.

Sincerely yours.

MIKE MANSFIELD.

COMPTROLLER GENERAL OF THE UNITED STATES. Washington, June 7, 1956.

Hon. MIKE MANSFIELD, United States Senate.

DEAR SENATOR MANSFIELD: In your letter of May 23, 1956, you requested information relating to particular areas of the military assistance program being

administered by the Department of Defense.

In our letter of acknowledgment of May 24, 1956, we advised that we would undertake a detailed examination of the fund reservations made by the Secretary of Defense in the latter part of June 1955. This examination has been initiated, but it is doubtful that we will be able to complete and furnish the information requested in your second and third questions before June 18, 1956.

The information requested in the first and fourth questions of your letter

follows.

You first inquired whether there is any reason, in our opinion, why the Committee on Foreign Relations should not reduce the authorization request by the full \$400 million in view of the amount previously retained by the Defense

Department in violation of law.

The act of September 3, 1954 (Public Law 778, appropriated for military assistance specified amounts of unobligated balances of prior appropriations as well as new funds for the fiscal year 1955. In addition, under section 101 of the act, amounts certified pursuant to section 1311 of the Supplemental Appropriation Act, 1955, as having been obligated against appropriations previously made for such purposes were authorized to be carried forward and consolidated under the current appropriation. In view of this statutory requirement, any balances which were found to be overstated were not proper for continued availability in the 1955 fiscal year.

Our examination of the report submitted on July 13, 1955, by the Secretary of Defense under section 1311 certifying to the balances of appropriations and funds under the control of the Department of Defense as of June 30, 1954, disclosed that the unliquidated obligation balances certified for the Military Assistance appropriations were overstated by at least \$400 million. The amounts overstated have been retained by the Department of Defense contrary to the provisions of the Mutual Security Appropriation Act, 1955. The exact amount erroneously certified, in addition to the \$400 million, is not determinable because the records and documents supporting the unliquidated balances were not in condition to readily permit audit and reconciliation. In fact, the confused and unsatisfactory conditions made it impracticable for the Department to submit

reliable certificates. Our report of examination which disclosed the overstatement was submitted to the Committees on Appropriations of the House of Representatives and the Senate on September 26, 1955, and copies were furnished to

the Bureau of the Budget and the Department of Defense.

Although the Assistant Secretary of Defense (Comptroller) in a letter dated December 23, 1955, to the chairman of the Committee on Appropriations, House of Representatives, endeavored to explain the circumstances and certain administrative and congressional actions subsequently taken, which he believed "would in the aggregate, if it were possible to identify the effect of each item, more than offset any overcertified or questioned amount as of June 30, 1954," the explanation does not alter the fact that the Department of Defense retained funds in excess of \$400 million which were not authorized. Whether or not subsequent actions taken by the Congress did, in fact, negate the effect of the overcertification, as indicated by the Assistant Secretary of Defense (Comptroller) in his letter of December 23, 1955, is a matter only the Congress can determine. Consequently, we are not in a position to answer categorically your question as to whether the authorization request for the fiscal year 1957 should be reduced by \$400 million. However, in order to remove any doubt, we suggest that Congress take positive action to dispose of the matter by either granting legislative authority for the retention of the \$400 million or by requiring restoration of the amount to the Treasury.

In your fourth question, it was indicated that you would be interested in obtaining any remedial suggestions which we might have concerning the lack of records in the Office of the Secretary of Defense of de-obligations and dereservations which you state seem to be required by section 110 of the Mutual

Security Appropriation Act, 1955.

That portion of section 110 of the Mutual Security Appropriation Act, 1955. quoted in question 4 prohibits the withdrawal of military assistance funds allocated to the Department of Defense in the absence of a certification of the Secretary of Defense that such funds are not needed to liquidate obligations incurred in the regular military appropriations in anticipation of reimbursement from reservations established under the military assistance appropriations. It should be recognized that when procuring common-use items, it is not feasible to separately identify obligations applicable to the military assistance program from those of the regular military programs. The establishment of reservations by the issuance of common-item orders is accomplished in the Office, Secretary of Likewise, any decreases in the total dollar value of the common-item orders issued would be effected by the Office, Secretary of Defense. There are adequate records maintained in that Office of those fund actions and of the balances available.

The results of our review to date indicated that, with the exception of aircraft and certain other major items, the common-item orders are not definitive orders of specific quantities of equipment or material to be delivered. The military departments effect deviations and substitutions between items to be delivered within the dollar limits of the common-item orders received. It is the opinion of program officials of the Office, Secretary of Defense, that these adjustments are entirely too voluminous and not of sufficient import for that organization to control. Under the system as it is administered, the total amount of the common-item orders constitutes a monetary limitation against which the military departments are authorized to modify or change as the need or conditions warrant within the approved dollar ceiling for each country. In answering your questions 2 and 3, we will endeavor to determine the extent of control exercised by the Office, Secretary of Defense as it relates to the amounts reserved for specific items ordered, delivered, and the undelivered balances.

We understand that recently the Bureau of the Budget and the Office, Secretary of Defense have reached an agreement to effect a more rigid control over common-item orders in accordance with prior representations to the Congress. It is contemplated that the military departments would not be permitted, except to an extremely limited degree, to vary from the delivery requirements of the common-item orders issued. We were not able to obtain any written evidence as to the criteria under which the military departments could determine the

degree of deviation permissible.

It is our opinion that this problem is one which requires reconsideration of the basis of providing appropriations for military assistance. At the time funds are requested to be appropriated by the Congress, or even at a later date at which time reservations are established, the military departments are not, as a rule, in a position to firmly identify the specific items which will be

delivered to the military assistance program within the funds authorized. As stated in our testimony before the committee on May 21, 1956, a possible approach to this problem would be the granting by the Congress of appropriate authority to permit administrative and programming actions with actual appropriations to be made for the fiscal year during which deliveries will take place. The original program approvals might contain the element of restriction as to the total dollar value authorized by country whereas the amounts to be appropriated for deliveries should be supported by more specific detailed information. It is unlikely that any such revision to the method of appropriating funds could be installed for the fiscal year 1957. However, it does not appear unreasonable for the Congress to require initiation of the necessary changes to bring about the stating of appropriations on an accrued expenditure basis beginning with the fiscal year 1958. We have today sent a letter to the Chairman of the Committee on Foreign Relations on this point. A copy is enclosed for your information.

Sincerely yours,

JOSEPH CAMPBELL, Comptroller General of the United States.

# APPENDIX VI

REPUBLICAN COMMITTEE OF ONE HUNDRED, New York, N. Y., May 4, 1956.

Senator THEODORE FRANCIS GREEN,

Committee on Foreign Relations,

Senate Office Building, Washington, D. C.

DEAR SENATOR GREEN: As a group of conservative Republicans, we ask you to insist upon a study of the whole-matter of foreign aid before granting the administration's request for \$4.9 billion.

We feel that it is high time to ask Secretary Dulles and President Eisenhower just what the \$55 billion in aid already given has accomplished for our country. The picture seems a dark one; the Soviet Union steadily increasing its imperialism; the United States with fewer and fewer friends and even our military installations and bases in jeopardy.

We are also strongly opposed to taking the United States into world govern-

ment by means of NATO.

Are we going to allow our country to become bankrupt and be led into world government through secret agreements?

We beg you to stand fast on demanding a complete reappraisal of this whole situation.

Very truly yours,

MARY BARCLAY ERB Mrs. Ray L. Erb, Chairman.

# APPENDIX VII

POLICY STATEMENT OF THE CITIZENS' COMMITTEE FOR EXPANDED FOREIGN AID

(Submitted by Dorothy Norman, chairman, New York, N. Y.)

In view of our deep concern about the need to help raise the standard of living in the vast, economically underdeveloped areas of the world, the undersigned have formed a Citizens' Committee for Expanded Foreign Aid to work for a more constructive foreign economic policy.

Since we favor a bold, long-range, integrated, bipartisan United States foreign assistance program to deal with the realities of the economic and human needs of the people of Asia, Africa, and Latin America, we consider President Eisenhower's message on foreign aid of March 19, 1958, to be far too limited in scope.

We therefore urge the President and the Congress to enact the following

3-point program:

(1) A minimum commitment of \$1.5 billion a year in loans and grants for underdeveloped areas, for a minimum period of 5 years, to be given through United States and United Nations technical and economic assistance programs.

(a) In order that our foreign economic and technical assistance programs in underdeveloped areas may have the maximum effect, we must not only in-

crease our annual appropriations from the totally inadequate \$500 million a year we are currently spending for such purposes; we must also give the greatest possible assurance that such appropriations will be available over a meaningful period of time.

During the past 10 years we have spent approximately \$50 billion on our overall foreign aid program. The expenditure of this sum was approved by Congresses and Presidents of both parties. Yet most of this amount has been utilized for military aid and defense support. In consequence, during the past 4 years our average annual expenditure for economic and technical aid to underdeveloped areas has been about \$500 million. Even for the coming year the President's message on foreign aid calls for only \$327 million for development and technical assistance for underdeveloped countries (this is exclusive of appropriations for defense support for certain nations); plus a special added authorization of \$100 million for the President's special emergency fund under the Mutual Security Act, plus \$5,950,000 for foreign atomic reactor projects; \$100 million authorized for the special Asian fund last year, but not obligated, is also being requested for the coming year. It is quite clear, however, that \$533 million of new money, plus \$100 million already authorized (even though not yet obligated) will by no means solve the problems of the economically underdeveloped areas.

One and one-half billion dollars a year represents a far more realistic figure, based, as it is, on careful—even conservative—estimates of the gap between what the underdeveloped nations can themselves produce, working hard and effectively, and what they need in order to achieve even the most modest improvements in per capita consumption by the end of the next 5 years. (It should be remembered that in all of the countries requiring assistance, per capita income descends from 20 percent of that of the United States to as low as 2 percent. It is instructive, also, to note that, according to the International Cooperation Administration's own figures, approximately "75 percent of all program expenditures go directly to American business and agriculture."

Obviously, the overwhelming need of the underdeveloped countries—which comprise most of the land surface of the earth and contain most of its people—are going to continue to exist during at least the next 5 years. Common sense, as well as experience, clearly indicates that long-range planning in connection with the execution of foreign aid programs means more efficient and economical

use of American dollars.

Since there is a question as to the constitutionality of congressional appropriations being made to cover more than one fiscal year at a time, we urge Congress to pass a resolution of its intent to continue foreign aid for a minimum period of 5 years.

(b) Our annual commitment of \$1.5 billion should include an increased contribution to the U. N. technical assistance program, which will enable it to expand its activities. Technical assistance through the U. N. has been the most popular of all forms of international aid. If we increase our own contribution to this program, we feel certain that other nations will gladly follow our lead.

Because greater availability of funds is not, in itself, sufficient, we urge

(2) The United States take more effective leadership in expanding and stabilizing world trade.

(a) The first and most urgent requirement is to find a solution to the problem of world trade in primary products. In order to accomplish this the United States should call an international conference (in or outside the U. N.) to give

urgent consideration to this question.

Without forgetting our own surpluses, we must also remember that exports of such staples as cotton, jute, rice, coffee, and rubber are the main source of foreign exchange earnings for a number of underdeveloped countries. The United States has, at times, been accused—and not without some justification—of granting aid on the one hand, and, on the other, disrupting the earning power of countries receiving aid through large-scale disposal of our own agricultural products at questionable world prices. The need for new, constructive thinking on this problem becomes more urgent with every passing month.

(b) In the interest of stabilizing world prices and expanding total world trade, including that of the United States, we urge Congress to approve President Eisenhower's request for United States membership in the proposed Organization of Trade Cooperation (OTC), which would administer the General Agreement

<sup>1 &</sup>quot;Background for Mutual Security," ICA, December 1955, p. 26.

on Trade and Tariffs (GATT). The United States has played a key role in setting up GATT. Our membership in OTC would entail no new obligation, yet OTC cannot come into existence unless 80 percent of world trade is represented in its membership. Since the United States accounts for more than 20 percent of world trade, OTC will be stillborn if we should fail to join it.

Since it is clear that, for some time to come, private investment, except with respect to extractive industries such as oil and scarce metals, will not be a major

source of capital for underdeveloped areas, we urge that-

(3) The United States use its influence and resources to provide increased

investment in development projects in underdeveloped areas.

(a) Almost every underdeveloped nation sorely needs such basic economic facilities as transportation and communication, yet lacks the capital to build them. To help remedy this situation, the U. N. has proposed creation of the Special United Nations Fund for Economic Development (SUNFED), which is designed to furnish a quarter of a billion dollars of capital funds for vital development projects. SUNFED is, thus far, only a proposal, largely because of United States failure to subscribe approximately \$80 million of the \$250 million necessary to launch it. We strongly urge that Congress include \$80 million for SUNFED in its forthcoming foreign-aid appropriation.

(b) We further urge that the United States make available more risk capital through the Export-Import Bank and the International Finance Corporation, and that the possibility of liberalizing the lending regulations of the Interna-

tional Bank for Reconstruction and Development be explored.

#### WHY AN EXPANDED AID PROGRAM AND A MORE POSITIVE ECONOMIC POLICY?

It is obvious that these concrete suggestions will not solve all of the problems of the underdeveloped world, but we feel that they represent constructive steps in the right direction. Prompt enactment by Congress of the program we support would reaffirm our faith in the possibility of resolving economic and social problems on a global scale and would go far toward restoring the faith of others in our ability to take adequate, effective action at this crucial moment.

It has become customary to postpone major policy decisions in election years. We believe that, on the contrary, now is the best time for the President forcefully to acquaint the American people with the need for a truly dynamic foreign economic policy. We are confident that a public which is aware of these needs will respond with enthusiastic support for a new initiative in behalf of the very

survival of the free world.

Pressure for a decent standard of living is coming increasingly from the peoples of the underdeveloped areas, and not simply from their governments. Such pressure will be successfully exploited by the totalitarians of the world unless those

who value freedom take positive action.

Economic aid for Asia, Africa,, and Latin America can no longer be incidental to other considerations—either political or economic. An adequate assistance program, set up on a cooperative basis, in generous spirit and without strings, cannot fail to have a dynamic effect on the survival of freedom in the world at To help improve the condition of man is an intrinsically self-justifying act of human faith. It is also a necessary precondition for democracy.

We therefore maintain that, although what the Communists do should not be

the reason for our own acts.

(1) We cannot any longer, especially in view of our own inadequate aid program, overlook the loan assistance being extended by the Soviet bloc, particularly in the uncommitted lands of Asia and the Middle East, with their great potential for Communist infiltration and subversion. Nor can we close our eyes to the very real propaganda success the Soviets are having, using development aid as a weapon.

(2) We must be acutely aware that the underdeveloped nations are determined to industrialize, to obtain vital foreign exchange by exporting their primary products, and to develop their resources as swiftly as humanly possible.

Disappointment of the hopes that have been raised throughout the underdeveloped areas, in part by United States technical assistance programs themselves, cannot help but weaken the very fabric of the democratic world.

## WHAT YOU CAN DO

Write to or wire members of Congress at once.

Protest against all efforts to discontinue or curtail United States economic and technical assistance for underdeveloped areas.

Press for increased aid.

Arrange to see your Congressman. Urge others to communicate with Mem-

bers of Congress in favor of the foregoing program.

Get in touch with members of the House Committee on Foreign Affairs, the Senate Foreign Relations Committee, and the two congressional Appropriations Committees.

Communicate with President Eisenhower and the majority and minority lead-

ers in both Houses of Congress.

See that radio and television programs are arranged; that there is widespread press and magazine coverage; that meetings are organized in order to inform others about the facts involved. Act promptly and effectively.

Write letters to the press. Testify at public hearings before congressional

committees on this vitally important subject. Get others to do so.

If you are a member of an organization, see that a resolution is passed favoring the foregoing program. Send copies of the resolution to your Congressman and to the press.

Write or wire your Congressman today.

# APPENDIX VIII

YOUNG WOMEN'S CHRISTIAN ASSOCIATION OF THE UNITED STATES OF AMERICA. New York, N. Y., May 8, 1956.

Hon. WALTER F. GEORGE,

Chairman, Foreign Relations Committee, Senate Office Building, Washington, D. C.

MY DEAR SENATOR GEORGE: The Young Women's Christian Association of the United States of America has supported the foreign-aid programs of the United States since their inception 9 years ago. The national board of the YWCA wishes to express its continued support of the United States' efforts to improve the wellbeing of peoples of the less-developed areas of the world as now expressed in the proposed mutual security program for fiscal 1957. We believe that this program is at least as important today as when it was begun and, indeed, that some aspects of it may have increased in urgency.

This is true particularly of the need for funds for technical cooperation and economic development of underdeveloped areas of the world. The YWCA of the United States of America is a member of a worldwide movement of Christian women, an affiliate of the World's YWCA, and through our sister associations in 65 countries, we have had a chance to participate in and observe the results of

some of these programs.

We are particularly anxious that funds for technical cooperation and economic development assistance be authorized. Our bilateral programs should be allowed the greatest degree of flexibility, consistent with the retention of congressional They should carry our commitment of support over as long a period as necessary to bring individual projects and enterprises to a successful conclu-This principle of long-term support should be carried over, where the machinery exists, to multilateral programs of economic development and technical cooperation, and to other multilateral programs of social welfare. also that it will be possible to make more of our food surpluses available for relief of the conditions of under-nutrition in many of the underdeveloped countries.

United States programs of economic cooperation exist because of a realization that we cannot look with indifference on the strivings of millions of peoples to lift themselves out of conditions of ignorance, disease, and poverty or mere subsistence existence. We have helped them to help themselves. We must continue to do so in a spirit of mutual satisfaction. We can well afford it for not only is our expenditure small but it is also rich in benefits to both the nations we share our skills with and to the United States-in terms of world peace and

Our programs of development assistance exist because of our recognition that the world is too small and too interdependent for the United States, a prosperous and powerful Nation, to ignore the increasing disparity of economic well-being between our Nation and those of the Middle East, Africa, and Asia. Political freedom and mass communication have resulted in an articulateness that cannot be ignored. These nations want and need help to raise their living standards, to sustain their freedom, and thereby aid in the maintenance of peace in the world.

In giving assistance we cannot afford to ignore those nations which which we

have no military alliances.

In addition to our bilateral programs, the national board of the YWCA has supported United States participation in the multilateral programs of the United Nations since their beginning. We are anxious that there be increased emphasis placed on our participation and support of the technical assistance and loan programs consistent with the development of adequate machinery for their application. We hope that the United States will give new consideration to proposals for a United Nations fund for basic economic development; and that we shall effectively participate in the developing U. N. agency for promotion of the peaceful uses of atomic energy. We believe that in some instances multilateral action has advantages in politically sensitive areas that bilateral aid may lack.

We have supported funds for the alleviation of the suffering of refugees and for their permanent settlement in areas where they would be acceptable and where they could lead productive and useful lives. We hope that our fair share of

funds will be authorized for these programs.

The national board has supported UNICEF since its inception. The need for this fund has grown as planning has shifted from an emergency to a long-term basis. United States leadership is vital in order to stimulate contributions to the Children's Fund by other countries. Recipient countries have now reached a point where they are more capable of utilizing all types of UNICEF aid. The fund has adopted and maintained a practical approach whereby aided countries will be in a position to continue programs after immediate assistance is terminated. Gains, thereby, are made permanent. The United States cannot afford to relinquish leadership in this great work for a more hopeful future for the world's children.

The President has requested authorization of a degree of flexibility in administering our foreign aid programs. We support this principle, recognizing the volatile stage of development of some of the countries and that change may occur with great rapidity in some of the underdeveloped areas. We believe that our funds can best be utilized if they can be applied where needed most at a given time. We also support the President's request for authority to make commitments up to 10 years in length. Such assurance of continuity will aid recipient nations to plan use of their own funds over a long period. Many projects require long-range planning; many problems require long-term application of funds. We should not limit the usefulness of our aid by placing arbitrary restraints

of application and time upon them.

In our support of the authorization of funds for the mutual security program it is with regret that we note the overwhelming proportion that has been requested for military aid as opposed to the small request for programs of social and economic welfare. While we realize that in a world still characterized by coldwar tactics, military preparedness for the defense of freedom is necessary, we can but deplore that more emphasis is not placed on expenditures for nonmilitary endeavors. We cann well afford it. It has been estimated by the U. N. that an expenditure of \$10 billion a year would make possible a 2-percent increase in per capita income of underdeveloped countries. The United States economy is at an all-time high with a national income of \$400 billion a year. Considering that mutual peace with justice, stability, and freedom are at stake it seems clear that the United States could supply up to half of this amount with relatively minor effects on our economy. We urge that if authorizations for funds are adjusted they be adjusted upward in the interest of economic aid.

Sincerely yours,

LILACE REID BARNES,

President.

# APPENDIX IX

STATEMENT OF VIEWS OF THE CHAMBER OF COMMERCE OF THE UNITED STATES REGARDING THE MUTUAL SECURITY PROGRAM OF 1956

The measure under consideration to extend the mutual security program is fundamentally similar in principle and objective to that of previous years—to provide military, economic, and technical assistance to other areas of the free world—to promote the security and foreign policy of the United States.

This program and its predecessors—the Marshall plan, the point 4 program, and mutual defense assistance—have had the support of the national chamber over the past 8 years.

The national chamber's membership reaffirmed its support of the principle of the mutual security program at its recent annual meeting, May 2, 1956.

The chamber believes that the burden of justification of amounts requested for the conduct of this program is on the executive officers who are in command of essential details regarding the projected program. In considering the justification presented, Congress should examine critically:

(a) The requested 200-percent increase in obligational authority for military

assistance.

(b) The long-range commitments.(c) The large carryover of funds.

(d) Adequacy of information.

The implications of present world tensions have awakened America to the overwhelming importance of building and maintaining a strong national security program. The war of ideologies is now in the open, and it promises to be both pronounced and prolonged. These circumstances require that our country be strong militarily, both to parry a surprise blow and to strike in retaliation, for an indefinite period in the foreseeable future. It also involves the strengthening of the free world by imparting some measures of encouragement to freedom-loving peoples everywhere by the bulwark of our strength as well as by material assistance.

Since the Geneva summit meeting we have seen a new phase of the cold war develop. The Soviet Union, following its zigzag course of action in world conquest, has apparently modified its reliance on violence and threats of violence and is now masking its ambitions in the form of economic aggression. The chamber believes that the United States must take effective steps to counter this Soviet thrust.

## MILITARY ASSISTANCE

The chamber supports assistance which enables the recipient countries to develop and maintain their individual and collective capacity to thwart subversion from within and resist aggression from without. There may be instances where aid of this category, to southeast Asian nations with whom we do not have military alliances, would be justified because of the ultimate contribution it would make to their ability to resist subversion or aggression.

It should be noted that a substantial portion of these funds are earmarked for other Asian countries whose ability to absorb effectively the level of assistance

contemplated for them should be examined.

In the interest of economy and sound planning, the chamber believes that the mutual security program must be administered with proper regard for balance among the military, economic, and technical needs of ourselves and our friends, in maintaining our common security. Specifically, the chamber believes that mutual security funds should be allocated in such way as to meet the local need peculiar to each recipient country and area.

Because the defense forces of our allies constitute a part of our own defense system, the cost of foreign military assistance should be included in annual

Defense Department appropriations.

# ECONOMIC AND TECHNICAL ASSISTANCE

The Soviet Union has launched a new economic challenge. It seeks to copy the American success of economic assistance to less-developed countries. While it is essential to recognize these factors and face them realistically, the mutual security program should not attempt to outbid the dubious offers of the Soviet Union and its satellites. Neither should it assume the aspects of a welfare project. Rather, the program should express the sincere desire of the American people to help other nations in their efforts to attain economic stability and so add to the overall strength of the free world. The program should, of course, be designed to provide realistic benefits to the United States as well as to the participating countries.

Faced as we are with serious Soviet competition in the field of economic development, we can no longer be satisfied with the principle of expediency. The economic soundness of lang-range planning seems apparent in terms of good business management. The President should have limited authority upon such terms as may be prescribed by Congress to provide long-range economic assistance in the form of loans and grants for approved foreign development projects which

may require a period of years for planning and completion.

This means greater certainty that projects, once they are begun, will be carried to completion. Premature termination or uncertainty would tend to negate the

investment already made.

The expansion of the economies of foreign countries engenders greater purchasing power, better markets, and higher levels of living. An orderly expansion of the economies of less-developed countries, consistent with each country's needs and opportunities, should include proper evaluation of agricultural pursuits and development of natural resources.

The chamber cautions against the encouragement of industrialization of less-developed countries "at any cost," believing that certain factors should be taken into account in each individual case, such as: the establishment of political and economic security and equal justice for domestic and foreign traders; possession of or access to essential raw materials, necessary capital (preferably private), whether domestic or foreign, and the requisite technical personnel; the prospect of adequate markets for industrial products either at home or abroad; the ability of industries thus fostered to survive without unduly restrictive trade barriers; and operation by private enterprise rather than by government.

Industrialization must proceed gradually if the underdeveloped areas are to be helped effectively. Newly built industries would have little immediate prospect of exporting in competition with the established industrial countries. There is also a risk that uprooting rural peoples and prematurely transforming them into industrial workers could have the effect of driving them into the Communist

camp.

The national chamber has long stressed the fact that private enterprise and private investment capital should be one of the cornerstones of any program undertaken by the United States for the economic advancement of less-developed areas; that Government funds not be used to support or displace activities that can best be handled by private investment capital.

The fact remains, however, that the development of basic industries is often an essential prerequisite to the attraction of private capital. Unless there is a climate of reasonable political stability and minimum risk, private capital cannot

be expected to go into such areas.

Foreign economic assistance should therefore be closely integrated with international political policy. More explicitly the administrators of the mutual security program should be permitted, where advisable, to extend economic aid to countries uncommitted in the East-West struggle without requiring them in return to ally themselves militarily with the West.

In Asia today millions of human beings are striving for national independence, improved standards of living, and human dignity. While they must achieve these goals primarily through their own endeavors, the task for the United States, in cooperation with other free nations, lies in using its influence through economic and technical assistance to help create the conditions in which the individual can survive and develop.

An essential element to the success of such endeavors is sympathetic understanding of these nations, which are sensitive to their own needs, and which respond better to expressions of cooperation based on partnership than to the relation of benevolent giver and reluctant recipient.

Our Government must not fail to seize the initiative in recognizing the problems and needs of these basically democratic countries, at this crucial time in their

development.

# CONCLUSION

In the foregoing, we have emphasized qualitative rather than quantitative evaluation of the proposed mutual security program. The chamber believes that this program, with safeguards noted, should be undertaken as an investment in mutual security and as insurance against the need for even greater defense expenditures by the United States if this course to mutual security were not pursued.

The proper ratio of fnuds to be allotted to military and economic aid must be left to the wisdom of Congress. However, the chamber urges that the importance of economic assistance to the objectives of mutual security not be underestimated. We must not construe military security as an end in itself, but as part of the whole program for the ultimate security of a strong and free society.

We are not a nation of unlimited resources. In the light of this consideration and in the realization that our competitive struggle with the Soviet Union may be of long duration, the chamber urges that every effort be made to put the mutual security program on a sound, practical, and economical basis.

We realize that good administration cannot be legislated. However, we urge that a close examination and annual review be made by the Congress of the program and that the establishment of effective criteria for the conduct of the program be sought.

To this end, we ask the Congress to institute a comprehensive study of the concept of United States mutual security programs today and in the foreseeable future, particularly as related to our overall foreign policy and domestic

economy.

The United States role of world leadership was not sought. Its burdens are not light. But once assumed, let us carry it in a positive and confident manner to the end that the cause of liberty will not have suffered by our lack of vision and failure to act.

# APPENDIX X

STATEMENT OF Mrs. ISABELLA J. JONES, CHAIRMAN, NATIONAL LEGISLATION COMMITTEE, THE NATIONAL FEDERATION OF BUSINESS AND PROFESSIONAL WOMEN'S CLUBS, INC., ON H. R. 10082, MUTUAL SECURITY ACT OF 1956

The National Federation of Business and Professional Women's Clubs, Inc., submits the following statement in support of H. R. 10082, the Mutual Security Act of 1956:

The National Federation of Business and Professional Women's Clubs, Inc., is an organization of women actively engaged in business and the professions, consisting of 168,728 business and professional women organized in 3,180 local

clubs in 48 States, Washington, D. C., Alaska, and Hawaii.

A legislative platform, adopted at the federation's national convention held in St. Louis, Mo., in July 1954, by representatives of its total membership directs in item II: "Support of legislation within the framework of the United States Constitution to implement a foreign policy which promotes peace and national security. (a) Strengthen and make effective the United Nations. (b) Advance international economic development through technical assistance and reduction of trade barriers. (c) Strengthen the North Atlantic Treaty Organization."

The National Federation has, since 1948, supported and promoted the United

The National Federation has, since 1948, supported and promoted the United States program of foreign aid through distribution to all members, of legislative and study program materials. Its members have an understanding of the principle involved and a realization that strengthening and developing the free world is necessary to attain our ultimate goal of peace with justice. The vastness and complexity of operations involving cooperative efforts in military, economic and technical activities in nearly 80 countries and territories in various stages of economic development, with varying political and social structures, and diverse and conflicting national interests, point up the need for continuity and flexibility in the mutual security program as requested by the President of the United States. Our national federation, therefore, especially and respectfully notes and supports those provisions providing appropriations for the Middle East and Africa, NATO, SEATO, Latin America, and the United Nations.

Our legislative steering committee has approved, and our federation supports H. R. 10082, and respectfully requests that the authorizations of H. R. 10082 be fully carried out by granting complete appropriations requested in this bill to

implement and make effective the Mutual Security Act of 1956.

# APPENDIX XI

THE COOPERATIVE LEAGUE OF THE USA, Chicago 4, Ill., May 23, 1956.

SENATE COMMITTEE ON FOREIGN RELATIONS, United States Capitol, Washington, D. C.

Gentlemen: My attention has been drawn to Austin T. Flett's testimony before your committee in connection with hearings on the mutual security bill. In his testimony, Mr. Flett, a Chicago insurance salesman, endeavored to characterize United States cooperatives as engaged in some sort of conspiracy to "communize national and international trade." He even went so far as to accuse the great humanitarian organization called CARE of leading the American people into one-world communism. Specifically, he charged the Cooperative

League of the USA with being a tool of the Soviet Union in an imaginary conspiracy.

In justice to 13 million American families who have invested their funds in cooperatives of various kinds and who are now responsible members and owners of cooperative businesses throughout this country, some comment on Mr. Flett's statements before your committee would appear to be in order.

The fact is that cooperatives—not only in this country but in other countries—are one of the most effective bulwarks against communism. Cooperatives, being voluntary groups of people engaged in business to meet their own economic needs, have given millions of people the experience of responsible business ownership. That experience is one of the most important ones there is to keep people from falling prey to Communist propaganda. American farm people form the backbone of the Cooperative League's membership. No group of people are as far in

their thinking from communism as the farmers of the United States.

The Cooperative League of the USA is a member of the International Cooperative Alliance. That organization federates national cooperative organizations in some 30 nations. These groups include well over 100 million people. All but 4 of more than 70 ICA member organizations are free democratic cooperative federations, committed to voluntary, democratic institutions such as we have in our country. Four organizations and only four—a Russian, a Czech, a Bulgarian, and a Rumanian—lie in the Communist orbit. It is our position that these groups should not be ICA members for the simple reason that genuine cooperatives cannot exist in a totalitarian country. The reason they are members is that they were admitted many decades ago before the Communists seized them. Action has not yet been taken to expel them.

However, the Cooperative League, along with cooperatives of Scandinavia and other countries of the free world, has established the policy in ICA that no organization from a Communist or totalitarian country shall ever be admitted to ICA. The Cooperative League's role in ICA has been that of a firm advocate of democratic and cooperative principles, as opposed to totalitarianism or state control. We believe firmly in a competitive free economic order wherein all types of business have a fair opportunity to compete. We have stood for all these principles in and out of ICA. The United States State Department and other Government agencies most concerned with overseas affairs have repeatedly com-

mended the Cooperative League.

According to Mr. Flett's distorted logic, the United States itself should be regarded as Communist because, along with the Soviet Union, it is a member of the United Nations! The Cooperative League occupies in ICA the same relative position and defends the same principles of liberty and freedom as do the United States and its allies in United Nations. It would indeed be easier for the Cooperative League to bow to Mr. Flett's criticism and withdraw from ICA. But, we do not believe this would be a patriotic thing to do. We believe our voice is needed in ICA and that such influence as we can exert for true cooperation and democracy is absolutely vital in so significant an international organization.

Sincerely yours,

JERRY VOORHIS, Executive Director.

## APPENDIX XII

STATEMENT OF BERNARD WEITZER, NATIONAL LEGISLATIVE DIRECTOR, JEWISH WAR VETERANS OF THE UNITED STATES OF AMERICA

On behalf of the Jewish War Veterans of the United States of America, I am happy to express our appreciation for this opportunity to present, once again, our support for the foreign aid program which you are considering. I am attaching copies of resolutions dealing with foreign aid passed at our 60th annual national convention held in Miami Beach, Fla., last October.

Since the Marshall plan was first proposed and continuously since that time, our organization has, by resolutions passed at our convention each year, by my appearances before the congressional committees concerned and in every other way possible, supported the bills you have considered for foreign aid in

all the forms which have grown out of the original proposal.

Before I go further, I wish to congratulate this committee upon the bills which it has reported over the years to carry out the foreign aid program—beginning with aid to Greece and Turkey, the year by year authorization for the Economic Cooperation Administration, the North Atlantic Pact, the military

defense assistance program and the Mutual Security Pact, the Technical Cooperation Administration now popularly known as the point 4 program, as well as These programs the aid provided through the agencies of the United Nations. over the years have cost tens of billions of dollars which were met by the tax payments of our members as well as by the taxes paid by all our fellow country-Our organization, by its continuing support of the foreign aid program and in its discussions preceding the adoption of the resolutions on the subject, has manifested its feeling that these billions of dollars have brought a worth while return.

This is not the time to cut down on the authorization for these foreign aid programs, just when the Communist overlords begin to institute sham foreign aid programs of their own. For the moment, the Soviets have made motions to minimize, in appearance, their aggressive intentions on the military side. But no one can believe that the Communists are slackening their determination to achieve their objective of dominating the world.

Any sign that we are easing our efforts can serve only to encourage our Communist foes. Furthermore, the free nations that we have been aiding may be misled, by any cuts of ours, to let down in their programs to guard against Communist infiltration, subversion and propaganda. The fight for peace manifested in our foreign aid program is being carrier on at infinitely less cost than even a little war. But we must continue our leadership of the free world by maintaining our own strength and helping at least to the extent proposed by

our President.

You can remember better than I can relate to you, the threatened overwhelming, by communism, of all Europe when the Marshall plan was proposed, due to the economic weakness and the near militarily defenseless condition of Europe. Today, there is relatively great strength in Europe this side of the Iron Curtain in both the military and economic status though there is still need for greater improvement. Our economic and military aid in other parts of the world has, in the meantime, greatly shored up the political, economic, and defense position of the newly independent nations which are taking their first steps toward the democracy and the kind of life which the well-being of our own people demonstrates, is worthwhile.

In the underdeveloped areas, the technical-cooperation programs which we have carried on bilaterally and through the technical-assistance program of the United Nations and its agencies, have helped to bring to the peoples in those areas, the know-how and the means to save lives, to improve the standard of living, to heal the diseases which curtail working power and which altogether have made life for them better. All of this helps to establish freedom as we know it on a sounder basis in all parts of the world and makes it more difficult for communism to make inroads and maintain itself.

At the same time, while we have been helping these millions of people and deterring Communist aggression at the cost of billions of dollars, our own country has enjoyed an expansion in its economic strength that is without parallel in our history. Never have so many people in our country had the means to satisfy their needs and their wants so fully. The men in the Kremlin and their Communist domain stretching from the western Iron Curtain of Europe to the Pacific borders of China and Siberia are still a threat. But the foreign-aid program which you have authorized over the years, can surely be credited with being a decisive factor in deterring the Communists from actions which could have loosened world war III. The continuation of these foreign-aid programs will continue to help us maintain the peace.

It is for these reasons that I respectfully urge your committee to report, favorably upon the program which the administration has presented for your consideration. We believe that greater emphasis than ever should be placed upon economic aid especially in the Far East and the Middle East and on the further development of multilateral-aid programs carried on by the United Nations and its independent agencies. Among the latter, I would especially mention the United Nations Children Fund—UNICEF.

(Following are the resolutions referred to in the first paragraph of the foregoing:)

# UNITED NATIONS

Whereas the United Nations continues to be the major forum for ideas relating to foreign relations problems; and

Whereas the United Nations helped in ameliorating and overcoming some of the problems which could have burst into the conflagration of war: Now, therefore, be it

Resolved, That the Jewish War Veterans of the United States of America in 60th annual national convention assembled at Miami Beach, Fla., October 24-30, 1955, continue to support the United Nations by all means in our power, and urge the Congress to appropriate adequate funds for the operations of the United Nations and call upon the Secretary of State to use facilities of the United Nations in every case where it is possible in dealing with foreign relations problems which arise.

#### NATO

Whereas the Jewish War Veterans of the United States of America has, from the date when the North Atlantic Treaty Organization was first suggested, consistently supported NATO as a means for buttressing our national security and the national security of the free world nations associated with us in that organization; and

Whereas the growing strength of NATO has been a substantial factor in deterring overt aggression and in creating the conditions which blunted Communist

efforts to dominate all of Europe; and

Whereas achievement of the military goals agreed upon for each member of NATO is essential to make Communist nations realize that aggression or a sneak attack will not pay off: Now, therefore, be it

Resolved by the Jewish War Veterans of the United States of America in 60th Annual National Convention assembled at Miami Beach, Fla., October 24-30,

1955---

- 1. That the United States not let down its guard in any way by cutting its defense budget unless and until firm and secure commitments for the first steps toward reduction of armaments have been agreed to by the Communist nations of the world, thus serving as an example to our NATO allies, encouraging them to maintain their own defense budgets despite the blandishing words of the Russian Communists at Geneva.
- 2. That there be no distinction in the direct and indirect military aid which we have been extending to the members of NATO until the military goals set have been met.

### MUTUAL SECURITY PACT FOR THE FAR EAST

Whereas the situation in the Far East and the Southwest Pacific, with newly independent nations readily subject to the subversions, incursions, and aggressions by Soviet and Chinese communism present a serious danger to the security of the free world including security of our own Nation; and

Whereas we found in the mutual security program applied in Europe, a pattern of activities which succeeded in stopping the Communist advance: Now,

therefore, be it

Resolved, That the Jewish War Veterans of the United States of America in 60th Annual National Convention assembled at Miami Beach, Fla., October 24–30, 1955, urge the President and the Congress to work out a program especially adapted to the needs of the situation in the Far East and Southwest Pacific including substantial technical assistance as well as grants-in-aid in order to strengthen the economic well-being and the political and governmental institutions of these newly independent nations so that they will maintain and defend their freedom against the Communist enemy.

# SUPPORT FOR THE ESSENTIALS OF THE MUTUAL SECURITY PROGRAM AND NATO

Whereas the Marshall plan, the Economic Cooperation Administration, the North Atlantic Treaty Organization, and the mutual security program have saved the major nations of Europe from being overwhelmed by the wave of communism which threatened in 1947; and

Whereas these successive programs have strengthened the economic foundations and the military defenses of these European nations to a degree which led the Soviet Government to practice its blandishments at the Summit Con-

ference in Geneva: Now, therefore, be it

Resolved, That the Jewish War Veterans of the United States of America in 60th Annual National Convention assembled at Miami Beach, Fla., October 24-30, 1955, urge sufficient funds be provided for maintaining and extending the advantages won by the mutual security pact and its predecessor programs so the Soviets will understand that their smiles and kindly words must be translated into deeds which will furnish a solid basis for peaceful coexistence.

#### RESOLUTION REGARDING UNESCO

Whereas the Jewish War Veterans of the United States of America have supported since its inception, the goals of the United Nations Educational, Scientific, and Cultural Organization to raise levels of education, the improvement of health, nutrition, and literacy, the rendering of assistance in natural science research, to improve living conditions and the exchange of students and teachers among nations of the world in order to achieve world peace; and

Whereas we believe our country benefits directly from UNESCO operations

in the following three ways:

1. In teaching the inhabitants of the underdeveloped areas modern techniques in science, education, and technology, it helps draw these regions closer to American ideas, standards, and trade;

2. It benefits American science, education, and culture by facilitating the exchange of ideas and methods between American and foreign scientists and edu-

cators:

3. Any organization which helps to preserve the peace is to the interest of our United States, which has the most to lose through war. In addition, however, by encouraging the idea of collective responsibility it increases the chances that we will not have to fight alone if again forced to fight against Communist aggression: Now, therefore, be it

Resolved by the Jewish War Veterans of the United States of America assembled in 60th Annual National Convention in Miami Beach, Fla., October 24-30. 1955, That we reaffirm our continuing support of UNESCO, our faith in the objects it seeks and the benefits which it has produced for our own country.

### UNITED NATIONS SPECIALIZED AGENCIES

Whereas the basic instincts of peoples of all races in all parts of the world are directed toward the continuation of their lives and the lives of their children; and Whereas the specialized agencies and funds of the United Nations such as the U. N. International Children's Fund, the Food and Agricultural Organization, and the World Health Organization which are respectively directed:

1. to provide food and medicine for starving children;

2. training the underfed nations and peoples in methods of agriculture which will produce more food supplies that will enable them to raise their daily caloric intake somewhat closer to half of what the average American eats each day;

3. training in sanitary measures and rudimentary health treatment which will eliminate or cut down the heavy toll of death and sickness from such diseases as malaria which greatly depletes the working days per year of the

peoples who need this help; and

Whereas, these nations and peoples in many cases, produce materials of great importance to American industry and to the industries and economics of friendly nations: Now, therefore, be it

Resolved, That the Jewish War Veterans of the United States of America in 60th Annual National Convention assembled at Miami Beach, Fla., October 24-30, 1955, urge Congress to appropriate funds more adequately, for these specialized activities of the United Nations.

### NATIONAL DEFENSE

Whereas the imagination of the civilized peoples of the world was captured by the presentation made by the President of the United States in the Summit Conference at Geneva through his proposal of steps to remove the fears and horrors of nuclear war and to establish the true picture of the efforts of the United States as a nation genuinely seeking the easing of the world tension and the recreating of a state of amicable relations among the nations of the world; and

Whereas the spirit thus created may have an undesired and untimely effect in causing or bringing about a movement to reduce the state of defense of the United States to meet forces seeking to overthrow democracy and freedom; and

Whereas the Jewish War Veterans of the United States of America, as do all Americans, hope for peace but nevertheless deplore and warn against too hasty a reduction in the forces to meet an attack by the Soviet Communists who have. notwithstanding the spirit of Geneva, continued their efforts and activities in attempting to accomplish their goal of world domination, as witness the action of Soviet Government and its satellites in fomenting discord in the Near East by the agreement to furnish arms to Egypt thereby bringing about the possibility of active hostilities between an Arab nation and Israel: Now, thereby, be it

Resolved, That the Jewish War Veterans of the United States of America in 60th Annual National Convention assembled at Miami Beach, Fla., October 24-30, 1955, urge that (1) we applaud the efforts of our President and our State Department in attempting to bring about and to preserve peace between all civilized nations but nevertheless deprecate and oppose the sacrifice of any part of an appropriate defense, particularly deprecating and deploring any efforts to reduce the defense budget, (2) we urge that in all dealings with the Communist Government and especially in the discussion of arms limitation, utmost caution be used to the end that deeds rather than words be relied on and (3) that, while we urge our Government to state its willingness to consider any proposal designed to eliminate the state of cold war with an open mind, pending such agreements and their acceptance, the United States continue support of a program of economic aid, military assistance, and technical assistance to those areas in the world which desire free and democratic government and which since the initiation of the Marshall plan have helped to produce the foundation for the impressive proposals made by the President at the Geneva Summit Conference.

#### TECHNICAL ASSISTANCE PROGRAM

Whereas the technical assistance program has been most warmly welcomed by those countries which have participated in that program; and

Whereas the technical assistance program has been unusually effective in the underdeveloped areas of the world and especially because many of the countries in those areas are being lured by Communist propaganda; and

Whereas in many of these underdeveloped areas there are raw materials of great value whose production can be largely increased by the technical assistance program: Now, therefore, be it

Resolved. That both the bilateral and United Nations program be greatly expanded and much more liberal appropriations be made for such program than have hitherto been granted.

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